MDC COMMUNICATIONS

1996 Annual Report

MDC Communications Corporation

Corporate Profile

MDC COMMUNICATIONS CORPORATION IS A PUBLICLY TRADED MULTI-DISCIPLINED COMMUNICATIONS ORGANIZATION WITH A STRONG RECORD OF SALES GROWTH, GENERATED BOTH INTERNALLY AND FROM ACQUISITIONS, THROUGH THREE DIVISIONS: SECURITY AND SPECIALTY PRODUCTS, DIRECT MARKETING AND HOME SHOPPING, AND COMMUNICATIONS AND MARKETING SERVICES.

- **A significant world manufacturer of security products in four key market areas: stamps, cheques, tickets and plastic cards. An emerging presence in a number of other niche markets for related security products.**
- **Canada's largest non-retail mail order catalog operation, coupled with the dominant retail and catalog packaged seed company.**
- **One of Canada's leading providers of advertising, marketing and design services and products.**

SOME MDC BUSINESSES UTILIZE COMMUNICATIONS, SOME PROVIDE COMMUNICATIONS, AND OTHERS SUPPORT COMMUNICATIONS. **I**N THEIR OWN WAY, EACH IS AT THE LEADING EDGE OF THEIR RESPECTIVE MARKETS, AND EACH FUNCTIONS AS PART OF A TOTAL MDC BUSINESS SYSTEM STRUCTURED TO TAKE MAXIMUM ADVANTAGE OF THE GROWING IMPORTANCE OF COMMUNICATIONS TO THE GLOBAL BUSINESS COMMUNITY.

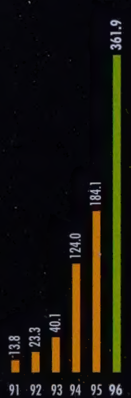
MDC Class A subordinate voting shares are traded on The Toronto Stock Exchange in Canada **MDZ.A** and on the American Stock Exchange **MDQ**.
This Annual Report and other shareholder information are available online at: **www.mdccorp.com.**

(in thousands of Canadian dollars except per share amounts) For the year ended December 31,	1996	(unaudited)* 1995	% Change
CONSOLIDATED FINANCIAL SUMMARY			
Sales	**$ 233,133**	172,782	+ 35
Operating income	**28,065**	14,334	+ 96
Cash flow	**17,310**	7,591	+ 128
Net income	**7,039**	2,810	+ 150
Earnings per share (EPS)			
Basic	**0.61**	0.27	+ 126
Fully diluted	**0.58**	0.27	+ 115
Cash flow per share (CPS)			
Basic	**1.49**	0.74	+ 101
Fully diluted	**1.34**	0.69	+ 94

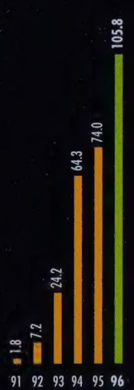
(in thousands of Canadian dollars except per share amounts) For the fourth quarter ended December 31,	1996	1995	% Change
Sales	**$ 79,940**	48,988	+ 63
Operating income	**14,257**	5,791	+ 146
Cash flow	**10,112**	3,479	+ 191
Net income	**5,453**	1,327	+ 311
Earnings per share (EPS)			
Basic	**0.47**	0.13	+ 262
Fully diluted	**0.44**	0.13	+ 238
Cash flow per share (CPS)			
Basic	**0.86**	0.34	+ 153
Fully diluted	**0.75**	0.30	+ 150

(in thousands of Canadian dollars) For the year ended December 31,	1996	1995	% Change
CONDENSED CONSOLIDATED BALANCE SHEET			
Cash and short-term investments	**$ 41,937**	11,599	+ 262
Other current assets	**84,031**	48,856	+ 72
Other assets	**235,967**	123,673	+ 91
Total assets	**$ 361,935**	184,128	+ 97
Current liabilities	**$ 64,075**	52,261	+ 23
Long-term indebtedness	**190,907**	56,748	+ 236
Minority interest	**1,177**	1,141	+ 3
Shareholders' equity	**105,776**	73,978	+ 43
	$ 361,935	184,128	+ 97

* amounts for the prior period have been restated to conform with the current period presentation

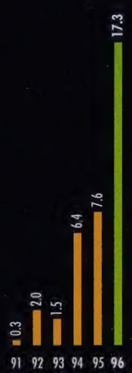


Assets
(in millions of dollars)



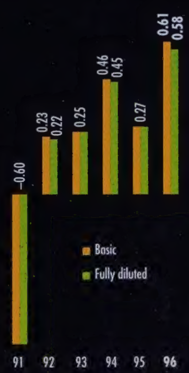
Shareholders Equity
(in millions of dollars)

Sales
(in millions of dollars)



Cash Flow from Operations
(in millions of dollars)

Net Income (Loss)
(in millions of dollars)



Earnings per Share
(in dollars)

"1996 IS THE FIRST TANGIBLE INDICATION THAT EXPANSION AND PRODUCTIVITY **improvement** PROGRAMS OVER THE PAST TWO YEARS HAVE BEEN A **success.**

GIVEN SOUND ACQUISITIONS, **growing** OPERATIONAL EFFICIENCIES, PLENTIFUL OPPORTUNITIES, AND A STURDY FINANCIAL FOUNDATION, WE EXPECT THE **momentum** TO CONTINUE."

Left to right:
Miles S. Nadal
President and
Chief Executive Officer

W. Judson Martin
Senior Executive
Vice-President and
Chief Operating Officer

Achieving BOTTOM LINE growth

SECURITY AND SPECIALTY PRODUCTS WAS THE LARGEST CONTRIBUTOR TO RECORD RESULTS AND WILL BE THE PRIMARY SOURCE OF FUTURE EXPANSION. STRONG GROWTH WAS ALSO POSTED BY COMMUNICATIONS AND MARKETING SERVICES. RESULTS FOR DIRECT MARKETING AND HOME SHOPPING HAVE LED TO DIVISION-WIDE REFOCUSING.

Year one of three-year plan a success

The past year was a very rewarding one for MDC.

Every important financial indicator — from the top line to the bottom — showed significant growth.

More importantly, the sources of this growth — and the process by which it was created — make us confident that the momentum will continue as we move forward.

Our performance was not a matter of good fortune or a quick fix. On the contrary, it represents the successful completion of the first year of a three-year plan adopted at the beginning of 1996. During the year, important progress was made on three key elements of this plan:

- Placement of seasoned and committed operating management in all three divisions
- Completion of key acquisitions to support our strategy of global and product expansion for Security and Specialty Products
- Establishment of a long-term capital structure which provides strong liquidity to underpin future growth initiatives.

In May, Graham Searle joined us as president of the Security and Specialty Products division. Graham brings 23 years of experience gained at the world's largest security printing enterprise. In September, Lawrence Lee was appointed president of our Direct Marketing and Home Shopping division's wholly-owned subsidiaries, Regal Greetings and Gifts Inc. and A.E. McKenzie Co. Ltd. Lawrence is a professional accountant and marketer with 20 years of achievement in the U.S. catalog and retail marketplace.

Also in May, we acquired The House of Questa located in London, England, a leading producer of postage stamps for Great Britain's Royal Mail and for more than 65 other countries around the globe.

In July, we completed the acquisition of Davis + Henderson Ltd., Canada's largest producer of cheques for the personal and business customers of major financial institutions, such

as chartered banks and trust companies. Through Check Gallery, a U.S. subsidiary, Davis + Henderson also participates in the rapidly growing direct-to-consumer cheque market in the United States.

In September, through our wholly-owned MDC (Asia-Pacific) Pty Ltd., we acquired the assets of Placard, a credit, debit, ATM, health, telephone and smart card manufacturer, and Spectron Security Print, a producer of event, transportation

Left to right:
Peter M. Lewis
Executive Vice-President
Corporate Development

Walter Campbell
Vice-President Finance and
Corporate Secretary

Michael Simonetta
Executive Vice-President

and lottery tickets — both located in Australia and servicing the neighbouring Asia-Pacific market.

The first step in improving our capital structure was the issue of approximately $26 million of common equity in May, with proceeds used to retire short-term indebtedness. In November, we completed the issue of US$125 million — 10½% Senior Subordinated Notes, approximately US$100 million of which was applied to reduce shorter-term indebtedness, including bridge financing for the Questa, Davis + Henderson, and MDC (Asia-Pacific) acquisitions. The balance will be used to fund our ongoing acquisition program. In mid-December, we issued $50 million — 7% Subordinated Convertible Debentures. Proceeds received in January 1997 will be used to fund future acquisitions. Also in January, we finalized arrangements for a US$50 million five-year revolving credit facility. This capital will be drawn on as required for general corporate purposes.

Financial Performance Improves Sharply

Our operating divisions generally performed well during 1996 contributing to significant growth in sales, operating income, net income and earnings per share.

Sales for the year were $233.1 million, an increase of 35% over the $172.8 million achieved in 1995. More importantly, operating income grew by 96% to $28.1 million and net income, at $7.0 million increased by 150% over the previous year. Basic earnings per share increased 126% to $0.61 per share. On a fully diluted basis, EPS amounted to $0.58 per share, an increase of 115%.

Sales for the final quarter of 1996 increased by 63% to $79.9 million. Partially on the strength of profitable

Despite THE **solidity** OF OUR BUSINESSES AND OUR CAPITAL STRUCTURE, WE ARE FAR FROM "MATURE" IN OUR GROWTH PATTERNS.

acquisitions completed during the year, fourth quarter operating income increased 146% to $14.3 million and net income grew by more than 300% to $5.5 million. Basic earnings per share were $0.47, up from $0.13 in 1995. Fully diluted EPS were $0.44 against $0.13.

1997 Objectives Focused on Operations

Now that we have reached the first plateau in our three-year plan, we are committed to reaching significantly greater heights. During 1997, we will:

- Continue cost reduction and containment initiatives in Security and Specialty Products and Direct Marketing and Home Shopping
- Fully implement our established global sales and marketing strategy for the Security and Specialty Products division, to achieve greater utilization of existing plant capacity
- Complete strategic acquisitions primarily in the Security and Specialty Products division which meet or exceed our stringent criteria
- Refocus our Direct Marketing and Home Shopping division upon its core businesses, enhancing merchandise offerings, with the objective of sharply increasing sales and profits in 1998 and beyond.

Expectations for the Future

While annual growth will not necessarily match that which we have seen over the past 12 months, MDC is well positioned with a solid balance sheet, strong liquidity, and plentiful opportunities — and we are very optimistic about the future. Like all other companies, MDC also faces challenges, especially in our Direct Marketing and Home Shopping division, but we believe we are up to them.

We hope the strong overall prospect of further growth is as gratifying for investors as it is for the dedicated employees and managers whose efforts are creating our success.

Miles S. Nadal

Miles S. Nadal
President and Chief Executive Officer

W. Judson Martin
Senior Executive Vice-President and Chief Operating Officer

An exciting *future*

"As a result of internal growth and strategic acquisitions, we're now a significant, integrated world player in a variety of security products. More importantly, we're working as

Security and Specialty

an integrated team and have the hardware and software in place to support rapid expansion in these and other niche markets in the years to come. But as we add sales, we're going to be very conscious of profit margins. So cutting costs, building productivity and efficiency will also be very high on our collective agenda."

Event tickets for major league and college teams is a major niche for Mercury Graphics.

Production in the U.S., Canada and Europe makes MDC a major global factor in stamps.

Products

With the acquisition of Placard, plastic cards represent an important growth opportunity.

Davis + Henderson plans to build market share for cheques in the U.S. and Canada.

Divisional President, Graham **SEARLE** is flanked by Sanford **McFARLANE** (left) Chairman and CEO, Davis + Henderson, and Greg **McKENZIE,** President of the newly-formed Security Card Services Group, executives who exemplify the global strength and experience of the operating management team directing the Security and Specialty Products division.

The key is *focus*

"Our core businesses are stable, strong, and profitable — and each enjoys a position of market leadership. At the same time, we are not satisfied with financial results — caused in part by poor Canadian retail

Direct Marketing and

market conditions and a tired merchandise offering. We are confident, the answer is a two-stage strategy. First, refocus and consolidate our core operations enhancing our catalog offers while significantly reducing our cost structure. Then, pursue ambitious — and inviting — domestic and international growth opportunities."

Regal's core catalogs and retail and catalog packaged seed business of A.E. McKenzie are the foundation for the future.

Home Shopping

Giftwrap is typical of the traditional products Regal Greetings is once again focusing on.

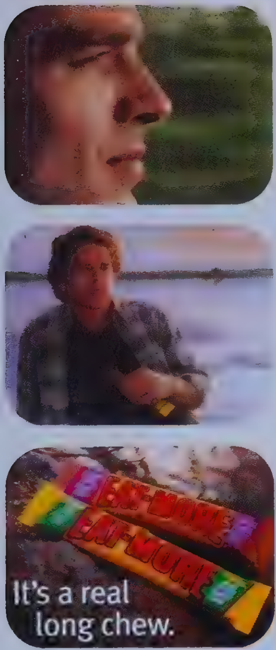
Responsible for the division's refocusing efforts is Lawrence **LEE**, President, Direct Marketing and Home Shopping. His extensive direct marketing and management experience will be an important factor in reinforcing the profitability of core operations as a prelude to pursuing other attractive opportunities for expansion.

Building on *strength*

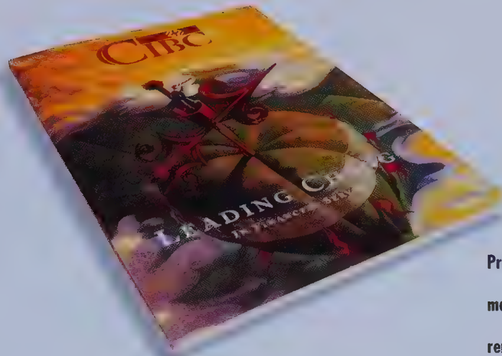
"Our challenge is to continue to outperform a healthy communications and marketing industry. The solution, not surprisingly, is not merely to do what has been successful in the past, but to

Communications and Mar

adapt to changing realities. For us, this means building on the strong niche foundations we have already established... and investing selectively in other opportunities which our research and intuition tell us will be dominant in an increasingly integrated and information-based marketplace."



Mass advertising, including television, for a Canadian and multinational clientele is a key divisional niche.



Print collateral materials of all kinds remain in strong demand, even as the division pursues online markets.

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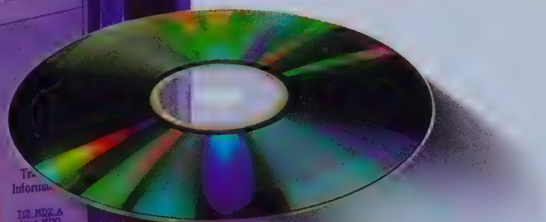
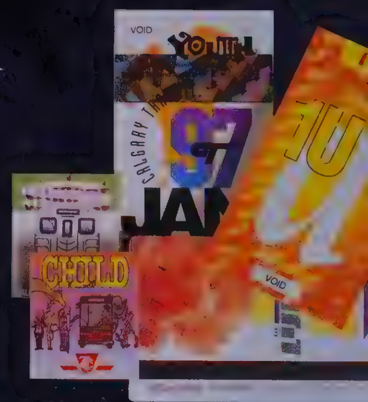


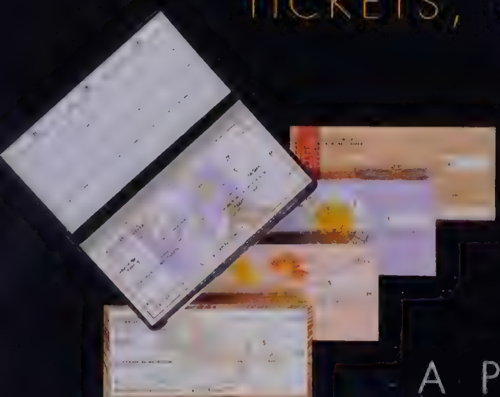
Packaging for a variety of consumer products throughout North America is a major growth area.

President of the Communications and Marketing Services division, Michel **FRAPPIER** is spearheading the development and implementation of a strategic plan designed to enable the division to maintain earnings growth in existing businesses while capitalizing on new trends for both the industry and ongoing client relationships.

WE ARE NOW SIGNIFICANT



world players IN FOUR CORE MARKET AREAS: STAMPS, CHEQUES, TICKETS, AND PLASTIC CARDS. AT THE



SAME TIME, WE'RE BUILDING A PRESENCE FOR THE **future** IN A NUMBER OF OTHER IMPORTANT AND

STAMPS REPRODUCED COURTESY OF CANADA POST CORPORATION, UNITED STATES POSTAL SERVICE, ROYAL MAIL, CROWN AGENTS STAMP BUREAU, INTER-GOVERNMENTAL PHILATELIC CORPORATION, NEW ZEALAND POST, HONG KONG POST OFFICE AND VATICAN CITY.

cialty Products

profitable markets FOR OTHER SECURITY PRODUCTS. EXISTING PLANT CAPACITY CAN SUPPORT SUBSTANTIAL **expansion** IN A NUMBER OF AREAS WITHOUT THE NEED FOR MAJOR CAPITAL EXPENDITURES.

Expansion is in the future

1996 was a gratifying year for the Security and Specialty Products division, as programs to expand our international presence and product range began to generate significant sales and earnings growth. While building the bottom line today, the division has also been busy preparing for tomorrow — and now has the human resources and systems in place to support further expansion in the years to come. As a result of new business awards around the globe, we are now taking the first significant steps towards increasing our plant capacity utilization — which now stands at approximately 60%.

PASSPORTS ARE ONE OF A NUMBER OF NEW SECURITY PRODUCTS THE DIVISION IS ACTIVELY PURSUING.

It is important to note that The House of Questa, Davis + Henderson, and the operations of MDC (Asia-Pacific) were acquired and internalized in one year, while preserving profit margins and implementing aggressive growth initiatives. These new companies — along with the other three in the division — are now functioning as a cohesive entity with strong synergies under the leadership of divisional president, Graham Searle.

From its genesis as a manufacturer of postage stamps for the United States Postal Service (the "USPS"), the division is now a world player in the security products industry, with strong market positions in a number of lucrative and growing market niches.

MARKETS FOR SECURITY PRODUCTS CONTINUE TO GROW ALONG WITH THE CAPABILITY FOR COUNTERFEITING.

Prime divisional objectives for 1997 are to improve day-to-day profitability in our operations through process efficiency and cost reductions, to aggressively pursue internal growth, and to seek out appropriate acquisitions to support our five core competencies: stamps, cheques, tickets, plastic cards and other security products. Our demonstrated strength in worldwide business development — coupled with newly added internal capabilities in research, product development, and purchasing — will help all of this to happen.

MERCURY GRAPHICS PRODUCES MAGNETICALLY ENCODED BOARDING PASSES FOR MANY OF THE WORLD'S LARGEST AIRLINES.

STAMPS

Strong international business gains were made during the year, particularly in markets served by Ashton-Potter (Canada) which won contracts in Europe and

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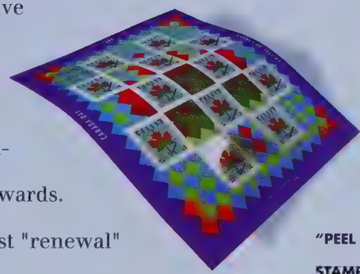
the Far East to complement its contractual relationship with Canada Post for which the company produced 450 million stamps in 1996. In addition, approximately 275 million stamps were produced during the year on behalf of Hong Kong and Singapore.

Ashton-Potter (USA) produced approximately 1.6 billion stamps for the USPS during 1996 at their Williamsville, New York plant, as well as the production of other security products through US and international contracts.

1997 will be a year of capacity utilization for the operation; combination postage stamps and other security products are projected to fully utilize our combination press through the third quarter. Management is confident in additional business opportunities being awarded as the year progresses.

DIVISIONAL MANAGEMENT BELIEVES PROSPECTS ARE EXCELLENT FOR FURTHER INTERNATIONAL POSTAGE STAMP PRINTING CONTRACTS.

The company is producing over 50% of the commemorative postage stamp issues in the United States during 1997 and is involved in some unique commemorative projects with the USPS that involve significant project awards. In this, the first "renewal" year of the company's contract with the USPS, Ashton-Potter (USA) is currently preparing for the "Multi-Print II" solicitation. The USPS is expected to award private sector suppliers an increased share of its postage stamp production. We are hoping to increase our share of the work contracted to the private sector particularly in the production of pressure-sensitive stamp products and also stamps printed by the gravure printing process.



"PEEL AND STICK" STAMPS REPRESENT AN IMPORTANT NEW POSTAL MARKET IN THE U.S. AND AROUND THE WORLD.

At The House of Questa, 1996 was a year of improvement and consolidation which resulted in less than satisfactory performance on production of approximately 850 million stamps for the Royal Mail and a global customer base. With a strengthened management team and clear programs to reduce costs and upgrade equipment in print and finishing, the company is expected to return to consistent profitability in 1997 and beyond.

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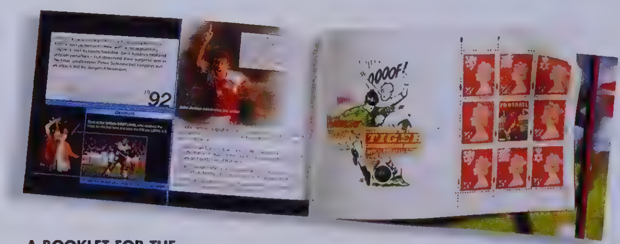
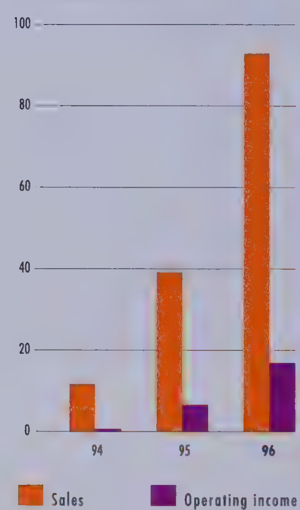
Opening even more doors around the world is the objective of an ambitious, integrated business development program. At the same time, the division is dedicated to further improving day-to-day profitability through cost reduction and process improvement initiatives.



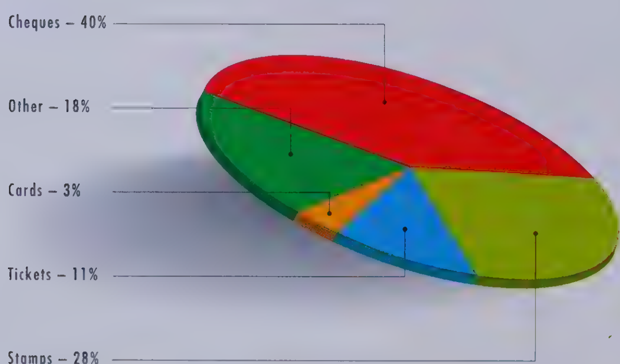
WE INTEND TO EXPAND OUR GLOBAL PRESENCE AS A LEADER IN THE POSTAGE STAMP MARKET.

A BOOKLET FOR THE WORLD SOCCER CHAMPIONSHIPS.

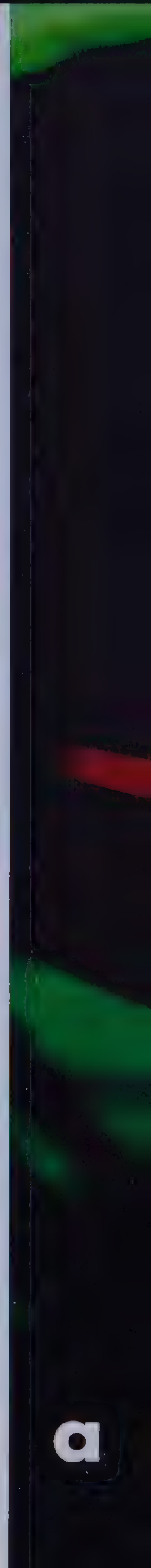
SALES AND OPERATING INCOME
(in millions of dollars)

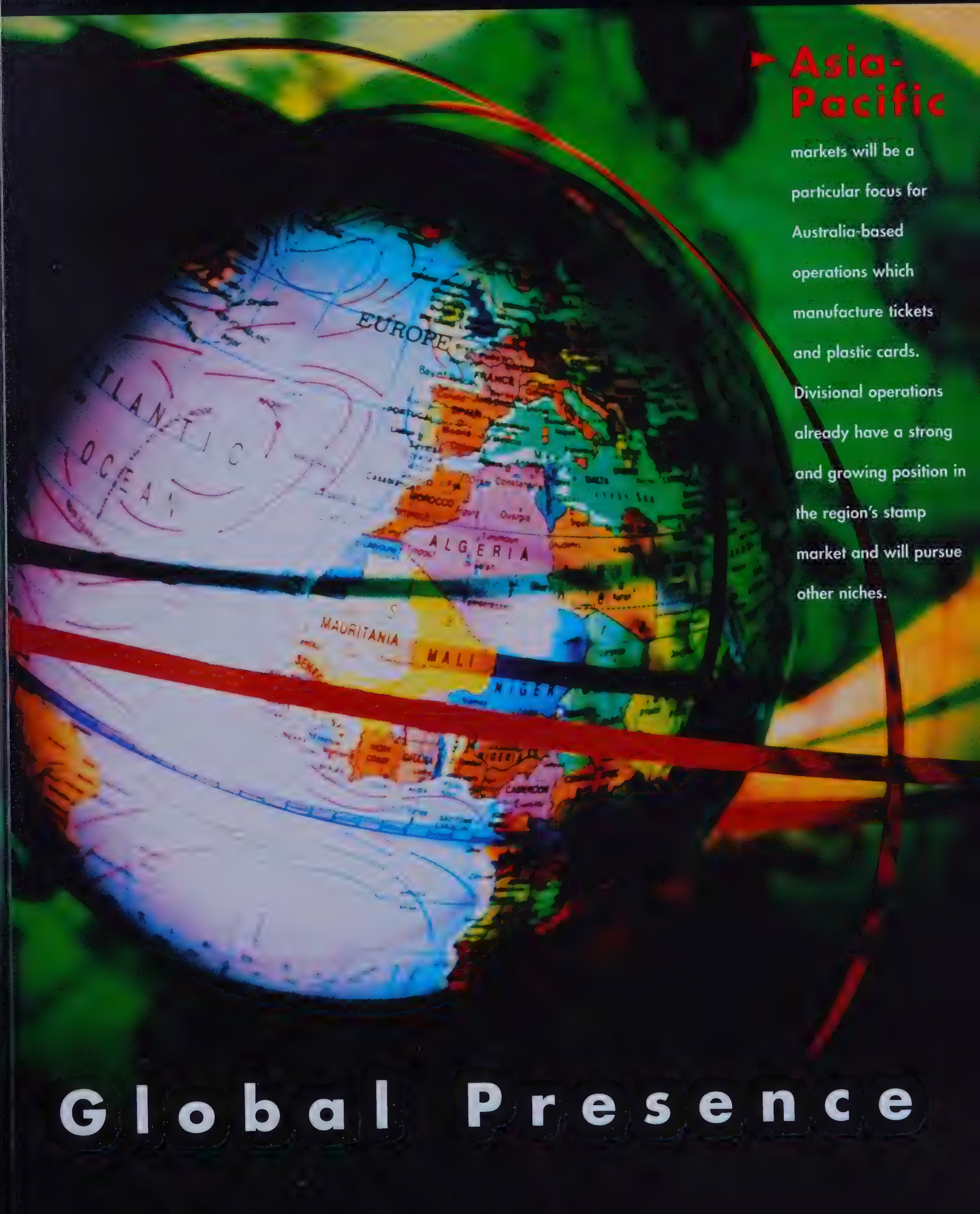


SALES – segmented



Building a



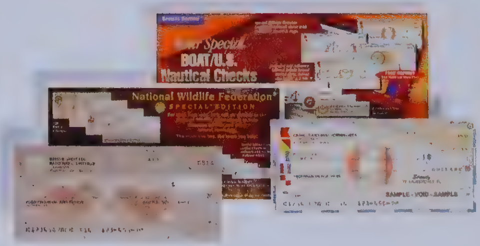


Asia-Pacific

markets will be a particular focus for Australia-based operations which manufacture tickets and plastic cards. Divisional operations already have a strong and growing position in the region's stamp market and will pursue other niches.

Global Presence

Cheques are a major addition



THE DAVIS + HENDERSON ACQUISITION ADDED CHEQUES TO THE SECURITY PRODUCTS ARSENAL.

Cheques

The addition of cheques to MDC's range of security products through the acquisition of Davis + Henderson was significant because the business has:

- a dominant share of the personalized cheques supplied to chartered banks and financial institutions in Canada
- strong contractual relationships with these Canadian financial institutions which will provide opportunities to offer a variety of other financial products and services
- an increasing share of the rapidly growing direct-to-consumer market in the U.S., which provides an important and lucrative growth opportunity for existing cheque products.

Over the coming year, Davis + Henderson will be focusing on four initiatives:

- Securing long-term cheque supply contracts with existing Canadian financial institutions as a means of securing increased market share for the longer term
- Continued development of the U.S. direct-to-consumer cheque market through internal growth as well as tuck-under acquisition
- Further cost reduction and containment in both Canadian and U.S. operations
- Development of a strategy to become a wider service provider to its core financial institution customers.

Tickets

The combination of recently acquired Spectron Security Print and Mercury Graphics makes MDC a significant international producer of mass transit, airline, lottery, and sports and specialty ticketing products — each an important growth product in the global marketplace.

MERCURY GRAPHICS CONTINUES TO ADD PROMINENT SPORTS TEAMS TO ITS LIST OF TICKETING CLIENTS.

At Mercury Graphics, the past year was another of significant new business awards, including contracts with 13 additional professional baseball, basketball, football and hockey teams, and 15 additional transit authorities in the United States and Canada. An aggressive new business program is pursuing more awards from new and traditional customers based on Mercury's outstanding service record.

produ

Operational improvements WILL BE ACCOMPANIED BY **strong** INTERNAL GROWTH AND ACQUISITIONS TO SUPPORT CORE COMPETENCIES.

Spectron Security Print, located in Melbourne, Australia, is a long-standing manufacturer of numbered, magnetic stripe, encoded and thermal access control tickets for use by mass transit systems, entertainment establishments and car parks. Spectron also is one of only two manufacturers of instant-win scratch lottery tickets in Australia. The company also serves the Asia-Pacific market and has aggressive marketing initiatives to become a dominant player, much like Mercury. Together, Mercury and Spectron provide a full range of ticketing products and have core competencies that complement each other.

USE OF TRADITIONAL MAGNETICALLY ENCODED CARDS IS EXPECTED TO GROW BY 40% BEFORE THE YEAR 2000.

Plastic Cards

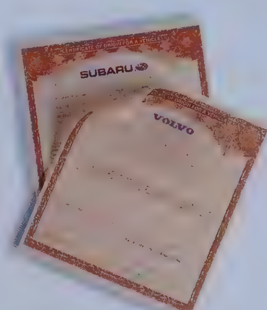
The acquisition of Placard, a leading manufacturer of credit, debit ATM and telephone cards for the Australian market, provides an important opportunity for growth throughout the Asia-Pacific region. The strategy driving this growth calls for technological alliances that will also allow the division to pursue the important growth market for "smart" cards — plastic cards which incorporate an integrated microprocessor chip. In 1995, there were just over 500 million of these cards in circulation around the world. In the next four years, this number is projected to grow more than eight-fold. Markets for traditional magnetically encoded plastic cards are also expected to grow rapidly — with the number of cards in use increasing by 40% to nine billion worldwide before the end of the century.

NEW GENERATIONS OF "SMART" PLASTIC CARDS ARE EXPECTED TO EXPAND MARKETS BY MORE THAN 700% OVER THE NEXT FOUR YEARS.

Other Security Products

Over the past year we have begun to address a number of new growth markets for other security printed products including brand protection, certificates of authentication, and purchase vouchers. We are now printing our first orders for these products and expect sales growth from these and new products this year.

AUTOMOTIVE REGISTRATION DOCUMENTS ARE JUST ONE OF A NUMBER OF DEVELOPING MARKETS FOR ASHTON-POTTER.



ctivity

Regal Greetings & Gifts is **Canada's largest**, non-retail mail order catalog company, with grass-roots distribution through 383,000 representatives. A.E. McKenzie is Canada's dominant

PACKAGED SEED MARKETER THROUGH CATALOGS AND MASS RETAILERS. WITH 170 YEARS OF SHARED HISTORY, BOTH ARE **market leaders.**

BOTH HAVE VIABLE AVENUES FOR **growth** IN THE **future.**

Sales representation grows

In the face of low consumer confidence, a difficult Canadian retail market and a wintry spring planting season, Regal Greetings & Gifts managed to generate a modest profit from flat sales, and A.E. McKenzie achieved growth in both sales and operating income in 1996. Although the level of profit was disappointing, strategies, including management changes and complete cost structure analysis, are being implemented division-wide. These immediate actions combined with the stability of our core businesses provide solid reasons to be optimistic about the division's long-term future.

EMPHASIS IN THE DISNEY CATALOG IS BEING PLACED ON PRODUCTS BASED ON TRADITIONALLY POPULAR CHARACTERS.

Regal and McKenzie Refocus

At Regal, the number of registered sales representatives grew 4% to more than 383,000 — an all-time high. Accompanying this, however, was a coincident decline in sales per representative, driven by a slow economy and response to a product line which had become tired — a situation that is being remedied and will be partly reflected in the Fall-Christmas and holiday catalogs.

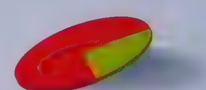
An important initiative for 1996 was the implementation of a program to streamline processes for order handling, paper products manufacturing, and product personalization. Process improvements, including elimination of redundancies are expected to generate $500,000 in production/fulfillment savings per year.

In 1997, core catalogs will devote more space to unique, value-priced products where Regal has a core competitive advantage, such as personalized goods — home decorating and proprietary paper products.

In addition, given the demonstrated trust and loyalty of customers, management is convinced that growth of product categories under the Regal banner is a key opportunity for the division. We will launch a full range of Regal name branded vitamins, a well priced, good value jewellery line in the Fall-Christmas offering and test a range of beauty and skin care products. These products are new to the Regal core catalog but are traditional to our form of distribution.

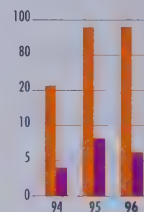
MORE CORE CATALOG SPACE WILL BE DEVOTED TO PRODUCTS WHERE REGAL HAS A COMPETITIVE ADVANTAGE

SALES – segmented



Regal Core Catalogs, 76%
Consumer Catalogs, 2%
Gardening Products, 22%

SALES AND OPERATING INCOME
(in millions of dollars)



Sales
Operating Income

refo

CORE OPERATIONS ARE *Stable* AND **strong**. REGAL'S CONSUMER CATALOGS ARE UNDER REVIEW AS PART OF CONSOLIDATION STRATEGY.

The consumer catalog segment showed selective improvement during the year. In the holiday season, for example, the Disney catalog more than doubled sales per catalog — a leading indicator of growth and corresponding profit — from $3.83 in 1995 to more than $8.00 in 1996. The primary factor in this increase was strong merchandising — including a product line which emphasized traditionally popular characters, with less dependence on the success of new movies. Sales through Jacaranda Tree and Playclothes catalogs remained sluggish and, as part of the refocusing of divisional operations, their continued operation is under active review by management.

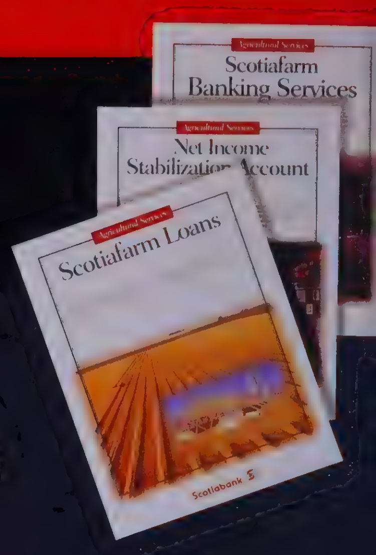
At A.E. McKenzie, demographic trends continue to provide fertile ground in which to grow the core packaged seed business — through catalogs and mass retailers. The experience of 1996 clearly established however, that potential for a wider range of gardening products is not as attractive. As a result, marketing and product development emphasis has been refocused on packaged seeds and related products. In a related step, Regal's Toronto office will oversee the design and production of all McKenzie catalogs. This is expected to result in a more appealing, and therefore, effective catalog, generating higher response rates and average order values while lowering costs.

For both divisional units, the watchword for growth is consolidation. Core operations are stable and strong. Management has decided to "stick to its knitting" as a means of achieving attractive rates of growth in mature and sluggish markets. While these grass roots programs are being implemented, Regal has postponed until 1998 promising international expansion opportunities and further domestic penetration through new service centres. At the same time, the company will monitor emerging trends in electronic retailing by testing the McFayden garden/horticultural catalog on the internet.

PAPER PRODUCTS, SUCH AS CARDS AND WRAPPING PAPER ARE POPULAR WITH REGAL CUSTOMERS AND PRODUCE EXCELLENT MARGINS.

THE MARKETING EMPHASIS AT A.E. MCKENZIE IS BACK ON PACKAGED SEEDS AND RELATED PRODUCTS.

CUS



OUR COMPANIES TEND TO **specialize** IN SERVING THE NEEDS OF A RELATIVELY NARROW RANGE OF SPECIFIC INDUSTRIES SUCH AS AGRICULTURE, PHARMACEUTICALS, PACKAGED GOODS, AND FINANCIAL SERVICES. AT THE SAME

Marketing Services

TIME, WE OFFER A BROAD

SPECTRUM OF **services,**

INCLUDING ADVERTISING, SALES

PROMOTION, DIRECT

MARKETING, PACKAGE

DESIGN, CORPORATE AND BRAND IDENTITY,

AND PUBLIC AND INVESTOR RELATIONS.

Surpassing industry averages

Sharply improved performance for the Communications and Marketing Services division, including an 18% increase in sales and 56% increase in operating income, was the direct result of management and structural changes made in 1995 and 1996.

With organizational issues now in order, the focus is on longer-term market positioning, through such strategies as exploitation of established niches and investment in rapid growth industries. At the same time management will stress continued increases in sales and earnings.

INTEGRATED MARKETING SERVICES SUPPORTS THE LAUNCH OF NEW PRODUCTS FOR MAJOR CLIENTS.

Marketing Services shows improved vital signs

Following several years of decline, the marketing services sector is currently in a revitalization stage. Since 1994, advertising expenditures have outpaced the general economy in the U.S. Now, following the normal lag period, Canada is beginning to exhibit the same trend. Having proven itself capable of outperforming the industry, Communications and Marketing Services is seeking to capitalize on the new growth trends to further boost profitability.

In fact, the division's strategy for the future — including internal growth and acquisitions — is being driven by developments in its specific business environment, including the growing importance of niche dominance within selected industries, the rapid growth of information-based marketing, and the increasing importance of integrated communications and marketing management services. Growth for the communications industry-at-large is widely forecast at seven percent annually for the coming years. In order to meet its objective of surpassing this figure, Communications and Marketing Services will selectively invest in existing businesses and in new growth areas.

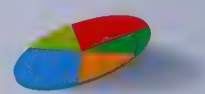
Acquisitions seek to build on niche dominance

The acquisition strategy will concentrate on operations in the United States to partner with our Canadian niche dominant companies in areas such as agricultural

Home Base *of the* future

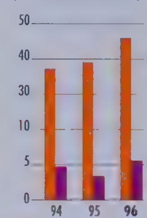
INTERACTIVE AND MULTI-MEDIA COMMUNICATIONS IS ALSO A MARKET AREA IN WHICH FURTHER EXPANSION IS PLANNED BY THE DIVISION.

SALES – segmented



- Agricultural, 25%
- Pharmaceuticals, 12%
- Financial Services, 35%
- Consumer Products, 15%
- Other, 13%

SALES AND OPERATING INCOME
(in millions of dollars)



- Sales
- Operating Income

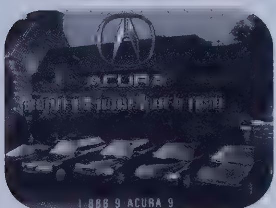
positi

THE *strategic* EMPHASIS IS ON EXPLOITATION OF **established** NICHES AND SELECTIVE INVESTMENT IN RAPID GROWTH INDUSTRIES.

advertising (Cormark), design and corporate image development (Strategies International), healthcare consulting (Veritas), and pharmaceutical advertising (LBJ Advertising).

In considering potential acquisitions, the heaviest weighting will be given to companies which have proven to be able to dominate a market niche with superior profitability, which capitalize on industry segments with above average potential for growth in sales and earnings, and which offer integrated services of increasing value — such as strategic planning and multi-disciplined program management.

In general, subsidiaries of the Communications and Marketing Services division occupy leadership positions in their market subsectors and, with management succession issues resolved in a number of key situations, management is now able to concentrate more of its energies on business development — and, more importantly, on earnings growth.



INNOVATIVE TELEVISION ADVERTISING CAN PLAY A MAJOR ROLE IN HELPING TO INCREASE PRODUCT SALES.

In general, divisional companies are attractive, largely autonomous businesses that consume little head office management time and offer both exceptional returns on equity and dependable contributions of cash flow. With negligible capital investment required, the division's generation of earnings provides for self-financing of internal growth.

Geographic expansion of the division's niche dominance, acquisition of service offerings in high-growth industry segments, and addition of dedicated financial management at the divisional level are each expected to appreciably increase the return on sales in 1997 and contribute significantly to MDC's future earnings stream.

MARKETING EXPENDITURES-INCLUDING POINT-OF-PURCHASE PROMOTION—ARE GROWING MORE RAPIDLY THAN THE ECONOMY.

MDC COMPANIES DESIGN PACKAGING FOR A LARGE NUMBER OF COMPANIES AND CONSUMER AND INDUSTRIAL PRODUCTS.

oning

TABLE OF *Contents*

RESULTS OF OPERATIONS: 1996 COMPARED TO 1995

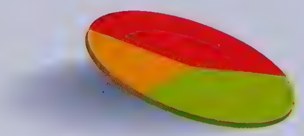
The following table summarizes, by division, the Company's results of operations for the year ended December 31, 1996 and for the 13-month period ended December 31, 1995 (all amounts in $ millions Cdn):

	1996*	1995**	Increase (Decrease)	Increase (Decrease)
Sales				
Direct Marketing and Home Shopping	**96.2**	105.3	(9.1)	(9%)
Security and Specialty Products	**93.0**	39.8	53.2	134%
Communications and Marketing Services	**46.1**	40.6	5.5	14%
Corporate and other	**(2.2)**	(1.5)	(0.7)	n/a
	233.1	184.2	48.9	27%
Gross Profit				
Direct Marketing and Home Shopping	**48.1**	55.1	(7.0)	(13%)
Security and Specialty Products	**34.5**	12.7	21.8	172%
Communications and Marketing Services	**13.1**	10.5	2.6	25%
Corporate and other	**1.1**	—	1.1	n/a
	96.8	78.3	18.5	24%
Operating Expenses				
Direct Marketing and Home Shopping	**41.7**	46.6	(4.9)	(11%)
Security and Specialty Products	**17.5**	6.2	11.3	182%
Communications and Marketing Services	**7.5**	6.5	1.0	15%
Corporate and other	**2.0**	3.2	(1.2)	(38%)
	68.7	62.5	6.2	10%
Operating Income				
Direct Marketing and Home Shopping	**6.4**	8.5	(2.1)	(25%)
Security and Specialty Products	**17.0**	6.5	10.5	162%
Communications and Marketing Services	**5.6**	4.0	1.6	40%
Corporate and other	**(0.9)**	(3.2)	2.3	72%
	28.1	15.8	12.3	78%
Amortization				
Direct Marketing and Home Shopping	**3.2**	3.0	0.2	7%
Security and Specialty Products	**5.8**	1.5	4.3	287%
Communications and Marketing Services	**1.0**	1.2	(0.2)	(17%)
Corporate and other	**0.6**	0.4	0.2	50%
	10.6	6.1	4.5	74%
Minority Interests	**1.3**	1.0	0.3	30%
Gain on sale of capital assets	**(0.6)**	—	(0.6)	n/a
Earnings, before interest and income taxes				
Direct Marketing and Home Shopping	**3.2**	5.5	(2.3)	(42%)
Security and Specialty Products	**11.8**	5.0	6.8	136%
Communications and Marketing Services	**3.3**	1.8	1.5	83%
Corporate and other	**(1.5)**	(3.6)	2.1	58%
	16.8	8.7	8.1	93%
Interest	**8.7**	5.4	3.3	61%
Earnings before income taxes	**8.1**	3.3	4.8	145%
Income taxes	**1.1**	—	1.1	n/a
Net Earnings	**7.0**	3.3	3.7	112%

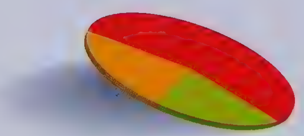
* all references to "1996" relate to the year ended December 31, 1996

** all references to "1995" relate to the 13-month period ended December 31, 1995

SALES
– by Business Segment
(in millions of dollars)



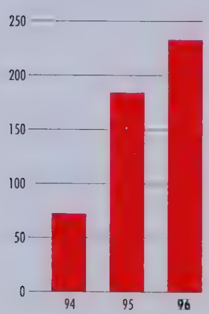
1996



1995

Communications and Marketing Services
Security and Specialty Products
Direct Marketing and Home Shopping

SALES
(in millions of dollars)



SALES

Sales in 1996 were $233.1 million, representing an increase of $48.9 million or 27% over the $184.2 million in 1995. Year-over-year growth in sales is summarized as follows:

Direct Marketing and Home Shopping	$ (9.1)
Security and Specialty Products	53.2
Communications and Marketing Services	5.5
Corporate and other	(0.7)
	$ 48.9

Direct Marketing and Home Shopping Division

Sales of the Direct Marketing and Home Shopping division totalled $96.2 million in 1996, representing a decrease of $9.1 million or 9% from the $105.3 million in 1995. The decrease was primarily attributable to the inclusion of results for 12 months in 1996 compared to 13 months in 1995.

Security and Specialty Products Division

Sales of the Security and Specialty Products division totalled $93.0 million in 1996, up $53.2 million or 134% over the $39.8 million in 1995, and accounted for 109% of the increase in sales of the Company. Of the increase, $42.3 million was attributable to the acquisition of Davis + Henderson Ltd. ("D+H") and $7.0 million was attributable to the acquisition of assets by Australia-based MDC Communications (Asia-Pacific) Pty Ltd. ("MDC(AP)") which were not included in the 1995 results. The remaining $3.9 million increase was attributable to internal growth at existing operations.

Communications and Marketing Services Division

Sales of the Communications and Marketing Services division totalled $46.1 million in 1996, $5.5 million or 14% higher than the $40.6 million in 1995, and accounted for 11% of the increase in sales of the Company. Growth was broadly based across the division with all operating units posting increased sales.

GROSS PROFIT

Gross profit was $96.8 million in 1996, up $18.5 million or 24% over the $78.3 million achieved in 1995. Gross margin decreased from 42.5% in 1995 to 41.5% in 1996 due to the decrease in gross margin in the Direct Marketing and Home Shopping division partially offset by increases in gross margins in the Security and Specialty Products and Communications and Marketing Services divisions.

Direct Marketing and Home Shopping Division

Gross profit was $48.1 million in 1996 representing a decrease of $7.0 million or 13% from the $55.1 million in 1995. Of the

decrease, $5.2 million was attributable to the inclusion of results for 12 months in 1996 compared to 13 months for 1995. Management attributes the remaining $1.8 million decrease to a difficult retail environment created by low consumer confidence and spending levels.

Gross margin of the division was 50.0% in 1996 down from 52.3% in 1995.

Security and Specialty Products Division

Gross profit was $34.5 million in 1996, up $21.8 million or 172% over the $12.7 million in 1995. Of this increase, $23.6 million was attributable to the acquisitions of D+H and MDC(AP). This was partially offset by a net $1.8 million decline in gross profit of the remaining units in the division, which was primarily the result of initiatives to penetrate new markets and increase existing market share.

Gross margin of the division was 37.1% in 1996, up from the 31.9% achieved in 1995.

Communications and Marketing Services Division

Gross profit was $13.1 million in 1996, reflecting an increase of $2.6 million or 25% from the $10.5 million in 1995, resulting from a general increase in sales and gross margins throughout the division. Management attributes this increase to improved management at the individual operating units resulting in increased efficiencies.

Gross margin of the division was 28.4% in 1996, up from the 25.9% achieved in 1995.

OPERATING EXPENSES

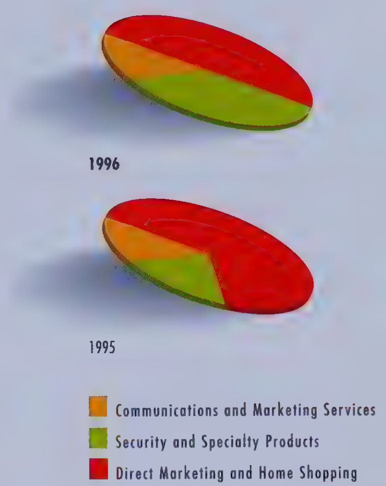
Operating expenses totalled $68.7 million in 1996 representing an increase of $6.2 million over the $62.5 million in 1995. Approximately $11.4 million of the increase related to the acquisitions of D+H and MDC(AP) which were not included in 1995 results. This was offset by a decrease of approximately $4.5 million attributable to the inclusion of results for 12 months in 1996 compared to 13 months in 1995, approximately $1.8 million attributable to corporate-wide cost reduction initiatives and $1.2 million attributable to gains in foreign exchange. Also, included in 1995 results under corporate and other operating expenses is a gain of approximately $2.3 million, resulting from management's successful negotiation to extinguish an obligation for costs which had been previously accrued with respect to a long-term lease obligation which were not included in 1996 results.

Operating expenses decreased from 33.9% of sales in 1995 to 29.5% of sales in 1996.

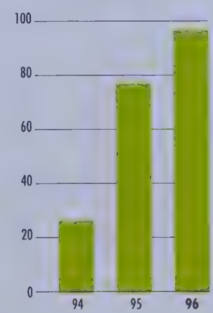
Direct Marketing and Home Shopping Division

Operating expenses totalled $41.7 million in 1996, reflecting a decrease of $4.9 million from the $46.6 million in 1995. Approximately $3.7 million of the decrease was attributable to the inclusion of results for 12 months in 1996 compared to 13 months for 1995. The remaining

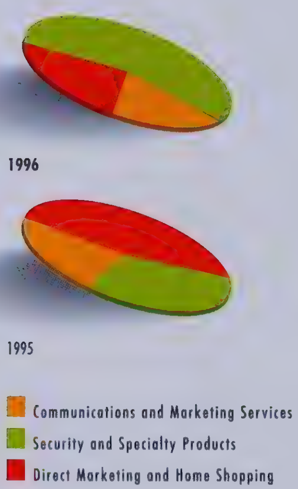
GROSS PROFIT
– by Business Segment
(in millions of dollars)



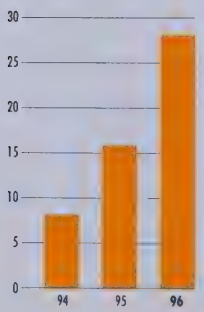
GROSS PROFIT
(in millions of dollars)



OPERATING INCOME
– by Business Segment
(in millions of dollars)



OPERATING INCOME
(in millions of dollars)



$1.2 million was primarily attributable to cost reduction initiatives.

Operating expenses decreased from 44.3% of sales in 1995 to 43.3% of sales in 1996.

Security and Specialty Products Division

Operating expenses totalled $17.5 million in 1996, up $11.3 million over the $6.2 million in 1995. Of this increase, $11.4 million related to the acquisitions of D+H and MDC(AP). The remaining $0.1 million decrease was attributable to the inclusion of results for 12 months in 1996 compared to 13 months for 1995 substantially offset by increased expenses incurred to grow the operations.

Operating expenses increased from 15.6% of sales in 1995 to 18.8% of sales in 1996 as larger infrastructures are required in the acquired companies of D+H and MDC(AP) to service their customer base.

Communications and Marketing Services Division

Operating expenses totalled $7.5 million in 1996, representing an increase of $1.0 million over the $6.5 million in 1995. This increase was primarily attributable to the requirement for additional resources required to service the growth in sales experienced in 1996.

Operating expenses increased marginally from 16.0% of sales in 1995 to 16.3% of sales in 1996.

OPERATING INCOME

Operating income was $28.1 million in 1996, reflecting an increase of $12.3 million or 78% over the $15.8 million in 1995. The increase can be attributed to increases of $10.5 million from the Security and Specialty Products division, $1.6 million from the Communications and Marketing Services division, a $2.3 million decrease in corporate and other expenses, partially offset by a $2.1 million decline from the Direct Marketing and Home Shopping division.

Operating income increased from 8.6% of sales in 1995 to 12.1% of sales in 1996, primarily due to the acquisitions of D+H and MDC(AP) coupled with the impact of corporate-wide cost reduction initiatives, which were partially offset by reduced performance in the Direct Marketing and Home Shopping division.

Direct Marketing and Home Shopping Division

Operating income was $6.4 million in 1996, a $2.1 million or 25% decrease from the $8.5 million reported in 1995. Of this decrease, $1.5 million can be attributed to the inclusion of results for 12 months in 1996 compared to 13 months for 1995 and $1.8 million can be attributed to reduced gross profit margins. These decreases were partially offset by a $1.2 million reduction in operating expenses.

Operating income decreased from 8.1% of sales in 1995 to 6.7% of sales in 1996.

Security and Specialty Products Division

Operating income was $17.0 million in 1996, up $10.5 million or 162% over the $6.5 million in 1995. Of this increase, $12.1 million was attributable to the acquisitions of D+H and MDC(AP). This was partially offset by a net $1.6 million decline in operating income of the remaining companies in the division. Operating income in these companies declined primarily due to the competitive pressure on margins experienced in 1996.

Operating income increased from 16.3% of sales in 1995 to 18.3% of sales in 1996.

Communications and Marketing Services Division

Operating income was $5.6 million in 1996, an increase of $1.6 million or 40% from the $4.0 million in 1995. Improved performance in 1996 can be traced to the increase in sales and improved gross margins experienced throughout the division.

Operating income increased from 9.9% of sales in 1995 to 12.1% of sales in 1996.

AMORTIZATION

Amortization was $10.6 million in 1996, $4.5 million or 74% higher than the $6.1 million in 1995. Amortization increased from 3.3% of sales in 1995 to 4.5% of sales in 1996. This increase was primarily due to the acquisitions of D+H and MDC(AP) combined with an increased capital asset base utilized in the Security and Specialty Products division.

Direct Marketing and Home Shopping Division

Amortization was $3.2 million in 1996, representing an increase of $0.2 million or 7% over the $3.0 million in 1995.

Security and Specialty Products Division

Amortization was $5.8 million in 1996, up $4.3 million or 287% over the $1.5 million in 1995. Of this increase, $2.3 million related to the acquisitions of D+H and MDC(AP) while the remaining $2.0 million was a result of increased amortization related to the extensive capital investment made in prior years.

Communications and Marketing Services Division

Amortization was $1.0 million in 1996 representing a decrease of $0.2 million or 17% from the $1.2 million in 1995.

MINORITY INTERESTS

In the Communications and Marketing Services division, minority interest was $1.3 million in 1996 representing an increase of $0.3 million or 30% over the $1.0 million in 1995. This increase was directly related to the increased operating income achieved by the division in 1996.

GAIN ON SALE OF CAPITAL ASSETS

A gain on sale of capital assets in the amount of $0.6 million was recorded in the

Security and Specialty Products division resulting from the sale of a printing press at Globe Graphic Communications Inc. There were no sales of capital assets in 1995.

EARNINGS BEFORE INTEREST AND INCOME TAXES ("EBIT")

EBIT was $16.8 million in 1996, $8.1 million or 93% higher than the $8.7 million reported in 1995. This resulted from increases of $6.8 million from the Security and Specialty Products division, $1.5 million increase from the Communications and Marketing Services division and a $2.1 million reduction of corporate and other costs, offset by a decline of $2.3 million in the Direct Marketing and Home Shopping division.

Direct Marketing and Home Shopping Division

EBIT was $3.2 million in 1996, representing a decrease of $2.3 million or 42% from the $5.5 million earned in 1995. Of this decrease, $1.3 million can be attributed to the inclusion of results for 12 months in 1996 compared to 13 months for 1995 with the remaining $1.0 million primarily attributable to reduced operating income margins.

Security and Specialty Products Division

EBIT was $11.8 million in 1996, up $6.8 million or 136% over the $5.0 million earned in 1995. Of this increase, $9.9 million was attributable to the acquisitions of D+H and MDC(AP). This was partially offset by a net $3.1 million decline in EBIT of the remaining units in the division attributable to increased amortization of $2.0 million and reduced operating income margins.

Communications and Marketing Services Division

EBIT was $3.3 million in 1996, up $1.5 million or 83% from the $1.8 million earned in 1995. Improved performance in 1996 can be attributed to increased sales and improved operating income margins.

INTEREST EXPENSE

Interest expense was $8.7 million in 1996, representing an increase of $3.3 million over the $5.4 million in fiscal 1995. The increase primarily related to interest expense on the long-term indebtedness incurred to finance the acquisitions of D+H and MDC(AP), and to fund the capital asset acquisition program primarily in the Security and Specialty Products division.

INCOME TAX EXPENSE

Income tax expense for 1996 was $1.1 million compared to the nominal amount in 1995. The Company continued to utilize the benefits of previously unrecorded tax losses to reduce its tax provision.

NET INCOME

Net Income was $7.0 million in 1996, reflecting an increase of $3.7 million or 112% from the $3.3 million earned in 1995, as a result of all of the foregoing items

discussed. Net income increased from 1.8% of sales in 1995 to 3.0% of sales in 1996.

LIQUIDITY & CAPITAL RESOURCES

Working Capital

Working capital was $61.9 million at the end of 1996, reflecting an increase of $53.7 million or 655% over the $8.2 million in working capital at the end of 1995. The increase was largely attributable to net proceeds retained from share capital issuance and long-term indebtedness refinancings. As at December 31, 1996, the Company had approximately $58.7 million in unrestricted cash and available bank credit facilities to support MDC's operating and acquisition requirements.

On January 7, 1997, the Company issued $50 million 7% Subordinated Convertible Debentures, due January 8, 2007. The debentures are convertible by the holder at any time. The debentures, under certain circumstances, are redeemable, at the option of the Company, in cash or Class A Subordinate Voting Shares.

On January 24, 1997, the Company completed a US$50 million revolving credit facility with a term of five years. The facility is undrawn as at the date hereof.

Giving effect to the above transactions, completed after year end, the Company has over $159 million in unrestricted cash and available bank credit facilities.

Long-term Indebtedness

Long-term indebtedness (including long-term indebtedness and current portion of long-term indebtedness) was $193.9 million at the end of 1996, representing a net increase of $128.0 million over the $65.9 million in long-term indebtedness at the end of 1995.

On November 25, 1996, the Company completed a corporate financing transaction totalling approximately $171 million (US$125 million) in connection with the issuance of 10 1/2% Senior Subordinated Notes due December 2006. The proceeds of this financing were used primarily to repay most of the Company's outstanding indebtedness including indebtedness that was incurred to finance the acquisitions of D+H and MDC(AP).

Capital lease obligations totalled approximately $12.2 million at the end of 1996. These are primarily related to the financing of long-term capital assets in the Security and Specialty Products division.

Share Capital

On May 17, 1996, the Company issued approximately 1.9 million Class A Subordinate Voting Shares for gross consideration of approximately $25.9 million. The funds raised from this equity issue were used to retire the $15 million Subordinated Debentures, issued in October 1995, as well as for other general corporate purposes including the funding of additional working capital and capital expenditure requirements.

Long-term Indebtedness to Shareholders' Equity

With over $105.7 million of shareholders' equity and $190.9 million of long-term indebtedness, the Company's long-term indebtedness to shareholders' equity ratio has increased from 0.77 to 1 at December 31, 1995 to 1.81 to 1 at December 31, 1996, the result of capital investments in both acquisitions and existing operations. Giving the effect to cash and short-term investments at December 31, 1996 and the 7% Subordinated Convertible Debenture issued after year end, the Company's net indebtedness to shareholders' equity ratio would be 0.85 to 1.

Repayment of Long-Term Indebtedness

Approximately $15 million of long-term indebtedness is due within the next five years with the majority due December 1, 2006. Management believes that this indebtedness will be repaid from cash flow from operations.

Cash Flow from Operations

Cash flow from operations, before changes in non-cash working capital, was $17.3 million in 1996, representing an increase of $8.8 million or 104% over the $8.5 million generated in 1995. The funds were used primarily to help fund the increased investment in working capital required to be made by the Company in 1996.

RISKS AND UNCERTAINTIES

Direct Marketing and Home Shopping Division

Postal Interruption

The Direct Marketing division's mail-order catalog sales are somewhat dependent on continued availability of uninterrupted postal delivery service for outgoing catalog distribution, incoming mail-orders, related parcel shipments and customer communications. Partially in response to the history in Canada of postal interruptions and threats of interruption, the division has developed alternate means of receiving incoming orders and shipping parcels, including the use of toll-free order telephone lines, fax orders and independent courier services. The division's reliance on postal delivery service has been further reduced as a result of the division's ability to deliver merchandise to its catalog customers through its service centres. On an annual basis, approximately 64% of the division's merchandise is delivered using means other than postal delivery service. However, a prolonged interruption in Canada's postal service would have an adverse impact on the division's results.

Foreign Suppliers

Approximately 68% of the Direct Marketing and Home Shopping division's merchandise offered through its Regal Core Catalogs is purchased from foreign independent trading agents selling products for manufacturers

located in Asian countries. Therefore, the division is exposed to the customary risks of doing business abroad, including fluctuations in the value of currencies, import duties, quotas, work stoppages, and political instability. To date, these factors have not had a material adverse effect on the division's operations.

Seasonality

In 1996, the Direct Marketing and Home Shopping division contributed approximately 41% of the Company's sales. A significant portion of the sales of this division is usually earned from Regal Core Catalogs in the peak selling period leading to Christmas. A major postal interruption or supplier disruption affecting this selling period potentially could have an adverse impact on the division's results. The seasonality of the division has been reduced through its packaged seed business A.E. McKenzie as it experiences its peak selling period in the four-month period ended April 30.

Security and Specialty Products Division

Customer Concentration

In 1996, the Security and Specialty Products division contributed approximately 40% of the Company's consolidated sales. The division currently derives a significant portion of its revenue from its postage stamp and cheque printing businesses, both of which have a significant concentration of customers. The postage stamp business derives a significant portion of its revenues from two government contracts: a postage stamp printing contract with the United States Postal Service which expires on December 31, 1997 and a three-year postage stamp printing contract with Canada Post expiring on December 31, 1997 (with Canada Post having two additional one-year extension options). Contracts are generally awarded in a competitive bidding process with the primary evaluation criteria being quality, customer service, design capability, and price. The loss of these contracts could have an adverse effect on the sales and earnings of the division. Although there can be no guarantee that the division will be successful in retaining these contracts, management's belief is that a focus on meeting the ongoing quality, reliability, and service requirements of its customers will allow the division to retain these contracts and increase annual production allocations. In addition, it is expected that the significant capital investment made to acquire state-of-the-art equipment and technology will give the division production cost efficiencies over its competitors.

A significant portion of the division's cheque printing revenue is derived from its sales to a few financial institutions pursuant to agreements. The contracts customarily contain certain provisions permitting termination on short notice for the benefit of the financial institution. Because cheques in

Canada are sold through financial institutions and there is currently no direct to consumer cheque market as in the United States, the loss of, or material reduction of volume under, these contracts would have a material adverse effect on the results of the Security and Specialty Products division. Although the Company believes that these contracts will continue to operate throughout their entire term and will be extended in the ordinary course, there can be no assurance that extensions will be exercised or that the contracts will be renewed at their scheduled expiration.

Communications and Marketing Services Division

Management's ongoing strategy to acquire ownership stakes in well-managed businesses has allowed the division to grow into a broad portfolio of 14 companies. The resulting diversity has allowed the division to minimize the effects that might arise from the loss of any one client or manager.

Management succession is very important to the ongoing results of the division. Management has focused on mitigating the risks with respect to these successions as well as the promotion of various growth initiatives.

OUTLOOK

The Company achieved significant progress in 1996. The 1997 fiscal year will not be without challenges, but management believes the Company has established the foundation from which profitable growth, both from existing operations and acquisitions, can occur.

The Direct Marketing and Home Shopping division will refocus upon its core businesses, streamlining infrastructure with the objective of reversing the declines experienced in 1996 and restoring sustainable growth and profitability for 1998.

The Security and Specialty Products division should continue to grow through gains in market share of existing products and from diversification into other security and specialty printed products. During 1997, the Company will complete its efforts to establish a global sales and marketing infrastructure for the division, to achieve greater utilization of existing plant capacity.

The Communications and Marketing Services division is expected to continue to improve with new growth initiatives to increase sales and operating profits.

During 1997, the Company, with its significant capital resources will continue to seek and evaluate acquisition opportunities, primarily in the Security and Specialty Products division. No matter the size of potential acquisition, we will maintain strict adherence to our fundamental acquisition criteria of niche companies or market leaders with good management, stable sales and earnings streams, low capital expenditure requirements, and strong growth prospects.

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the preparation and presentation of these financial statements and all the financial information contained within this annual report within reasonable limits of materiality. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements. The financial information throughout the text of this annual report is consistent with that in the financial statements.

To assist management in discharging these responsibilities, the Company maintains a system of internal control which is designed to provide reasonable assurance that its assets are safeguarded, that transactions are executed in accordance with management's authorization and that the financial records form a reliable base for the preparation of accurate and timely financial information.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws, and for the maintenance of proper standards of conduct in its activities.

BDO Dunwoody, Chartered Accountants, are appointed by the shareholders and have audited the consolidated financial statements in accordance with generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Company.

Annually, the Board of Directors appoints an Audit Committee composed of at least three directors who are not members of management. The Audit Committee meets periodically with management and the auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. It is responsible for reviewing the annual and interim consolidated financial statements and the report of the auditors. The Audit Committee reports the results of such review to the Board and makes recommendations with respect to the appointment of the Company's auditors. In addition, the Board may refer to the Audit Committee on other matters and questions relating to the financial position of the Company and its affiliates.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and for approving the consolidated financial statements for presentation to shareholders.

W. Judson Martin
Senior Executive Vice-President
and Chief Operating Officer
March 14, 1997

W. Campbell

Walter Campbell
Vice-President Finance
and Corporate Secretary

Auditors' Report to the Shareholders of MDC Communications Corporation

We have audited the consolidated balance sheets of MDC Communications Corporation as at December 31, 1996 and 1995 and November 30, 1994 and the consolidated statements of retained earnings, operations and changes in financial position for each of the years and the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996, 1995 and November 30, 1994 and the results of its operations and the changes in its financial position for each of the years and the period then ended in accordance with generally accepted accounting principles in Canada.

BDO Dunwoody

Chartered Accountants

Markham, Ontario

February 26, 1997

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)	**December 31, 1996**	December 31, 1995	November 30, 1994
ASSETS			
Current			
Cash and short-term investments	**$ 41,937**	$ 11,599	$ 8,971
Accounts receivable *(note 2)*	**35,620**	16,915	12,169
Income taxes recoverable	**—**	191	—
Inventory	**39,391**	28,206	14,522
Prepaid expenses and sundry	**9,020**	3,544	2,431
	125,968	60,455	38,093
Investments	**—**	—	683
Capital and other assets *(note 3)*	**97,200**	43,581	17,586
Goodwill *(note 4)*	**138,767**	80,092	67,687
	$ 361,935	$184,128	$124,049
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness *(note 5)*	**$ 676**	$ 14,860	$ 351
Accounts payable and accrued liabilities	**57,427**	27,182	23,717
Income taxes payable	**19**	—	210
Deferred revenue	**2,957**	1,093	892
Current portion of long-term indebtedness	**2,996**	9,126	5,182
	64,075	52,261	30,352
Long-term indebtedness *(note 5)*	**190,907**	56,748	26,645
Other liabilities	**—**	—	2,422
	254,982	109,009	59,419
Minority interest	**1,177**	1,141	329
Shareholders' equity			
Share capital *(note 6)*	**86,219**	61,460	57,043
Other paid in capital	**1,943**	1,943	—
Retained earnings	**17,614**	10,575	7,258
	105,776	73,978	64,301
	$ 361,935	$184,128	$124,049

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

On behalf of the Board:

Miles S. Nadal

Miles S. Nadal
Director

W. Judson Martin
Director

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of Canadian dollars, except per share amounts)	For the Year Ended December 31, 1996	(unaudited) For the Year Ended December 31, 1995	For the Thirteen-Month Period Ended December 31, 1995	For the Year Ended November 30, 1994
Sales	**$ 233,133**	$ 172,782	$ 184,183	$ 72,415
Cost of sales	**136,300**	100,397	105,909	45,922
Gross profit	**96,833**	72,385	78,274	26,493
Operating expenses	**68,768**	58,051	62,490	18,392
Operating income before other charges (income)	**28,065**	14,334	15,784	8,101
Other charges (income)				
Loss (gain) on sale of capital assets	**(615)**	—	—	3
Amortization	**10,581**	5,764	6,083	1,921
Interest	**8,725**	4,976	5,405	846
Minority interests *(note 7)*	**1,258**	828	1,013	850
	19,949	11,568	12,501	3,620
Income before income taxes	**8,116**	2,766	3,283	4,481
Income taxes (recovery) *(note 8)*	**1,077**	(44)	(34)	173
Net income for the year	**$ 7,039**	$ 2,810	$ 3,317	$ 4,308
Earnings per share *(note 9)*				
Basic	**$ 0.61**	$ 0.27	$ 0.32	$ 0.46
Fully diluted	**$ 0.58**	$ 0.27	$ 0.32	$ 0.45

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(in thousands of Canadian dollars)	For the Year Ended December 31, 1996	(unaudited) For the Year Ended December 31, 1995	For the Thirteen-Month Period Ended December 31, 1995	For the Year Ended November 30, 1994
Retained earnings, beginning of year	**$ 10,575**	$ 7,765	$ 7,258	$ 2,950
Net income for the year	**7,039**	2,810	3,317	4,308
Retained earnings, end of year	**$ 17,614**	$ 10,575	$ 10,575	$ 7,258

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(in thousands of Canadian dollars)	**For the Year Ended December 31, 1996**	(unaudited) For the Year Ended December 31, 1995	For the Thirteen-Month Period Ended December 31, 1995	For the Year Ended November 30, 1994
Cash provided by (used in)				
Operating activities				
Net income for the year	**$ 7,039**	$ 2,810	$ 3,317	$ 4,308
Items not involving cash				
Amortization	**10,581**	5,764	6,083	1,921
Deferred income taxes	**462**	218	218	(986)
Recovery of other liabilities	**—**	(2,318)	(2,318)	—
Loss (gain) on sale of capital assets	**(615)**	—	—	3
Other	**(157)**	1,117	1,222	1,117
	17,310	7,591	8,522	6,363
Changes in non-cash operating accounts	**(13,260)**	(10,607)	(11,889)	6,288
	4,050	(3,016)	(3,367)	12,651
Investing activities				
Investments and acquisitions, net	**(79,915)**	(12,197)	(19,765)	(62,684)
Capital and other assets, net	**(32,194)**	(22,298)	(24,166)	(9,136)
	(112,109)	(34,495)	(43,931)	(71,820)
Financing activities				
Proceeds on issuance of long-term indebtedness	**182,172**	28,899	38,899	28,210
Repayment of long-term indebtedness	**(54,350)**	(8,222)	(9,842)	(4,593)
Share capital	**24,759**	6,367	6,360	35,828
Other	**—**	—	—	(87)
	152,581	27,044	35,417	59,358
Increase (decrease) in cash and equivalents during the year	**44,522**	(10,467)	(11,881)	189
Cash and equivalents (bank indebtedness), beginning of year	**(3,261)**	7,206	8,620	8,431
Cash and equivalents (bank indebtedness), end of year	**$ 41,261**	$ (3,261)	$ (3,261)	$ 8,620
Represented by				
Cash and short-term investments	**$ 41,937**	$ 11,599	$ 11,599	$ 8,971
Bank indebtedness	**(676)**	(14,860)	(14,860)	(351)
	$ 41,261	$ (3,261)	$ (3,261)	$ 8,620

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

December 31, 1996 and 1995 and November 30, 1994

Principles of Consolidation The financial statements include the accounts of the Company and any effectively controlled subsidiary companies consolidated using the purchase method. Where the Company does not exercise control, even though it may have a majority interest, the proportionate consolidation method is used. Acquisitions are consolidated from the effective date of acquisition with intercompany transactions and accounts eliminated upon consolidation.

Change in Accounting Policy In 1996 the Company retroactively adopted the proportionate consolidation method for investments in joint ventures. Such investments were formerly recorded on the equity basis. The effects of this change are not material.

In 1996 the Company also retroactively adopted the financial instruments policy to allocate the convertible debenture into a liability and an equity component (see Note 5).

Comparative figures have been reclassified to conform with the current year's financial statement presentation.

Revenue Recognition Revenue is recognized using the percentage of completion method with respect to contracts having a specified time period for the performance of the service. Work in progress is estimated as the portion of revenue which has been earned but not billed. Customer billings in advance are recorded as deferred revenue. Potential losses, if any, on work in progress are provided for as soon as the possibility of a loss becomes apparent.

All other revenue is recorded when the service is completed and/or the product is delivered.

Investments Investment in entities over which the Company has significant influence but not control are accounted for under the equity method. Under this method, the cost of the Company's investment is adjusted to reflect the changes in the Company's share in the equity of the investee.

Inventory Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Capital Assets Capital assets are recorded at cost. Amortization is provided as follows:

Buildings — 4–5% straight line

Furniture and fixtures — 0–30% declining balance

Machinery and equipment — 10–20% declining balance

Leasehold improvements — Straight line over term of lease

Goodwill Goodwill represents the price paid for acquisitions in excess of the fair market value of net tangible assets acquired. The Company amortizes goodwill on a straight-line basis over 40 years. The carrying value of goodwill is assessed annually by reviewing the estimated future cash flows of the underlying businesses of the Company. Any permanent impairment in the carrying value of goodwill is expensed in the period in which the assessment is made.

Deferred Charges The Company capitalizes direct costs related to development of new products and services until the commencement of commercial operations, at which time all related costs are amortized on a straight-line basis over their estimated useful life.

Deferred Finance Costs Deferred finance costs are amortized over the term of the related indebtedness.

Pensions The cost of pension benefits earned by employees covered under the defined benefit component of the pension plan is determined using the projected benefit method prorated on service. This cost reflects management's best estimates of the pension plan's expected investment yields, salary escalation, mortality of members and the ages at which members will retire.

Deferred Income Taxes Deferred income taxes result primarily from the difference between amortization recorded in the accounts and capital cost allowance claimed for income tax purposes.

Foreign Currency Translation With the exception of the Company's foreign subsidiaries, foreign currency assets and liabilities carried at current prices are translated into Canadian dollars using the rate of exchange in effect at the year end; other foreign currency assets and liabilities are translated using the rates of exchange in effect at the dates of the transaction; revenue and expense items are translated at the average monthly rate of exchange for the year, except for amortization of capital and other assets which is translated at the historical rates of the related assets. The accounts of foreign subsidiaries' self-sustaining operations are translated using the rate of exchange in effect at year end.

The unrealized foreign exchange gains and losses on translation of the accounts of foreign subsidiaries are reflected as a separate component of shareholders' equity. The amount of the cumulative translation adjustment was insignificant for all years presented and has not been separately disclosed. The unrealized foreign exchange gains and losses relating to translation of long-term monetary assets and liabilities of a fixed term are deferred and amortized over the remaining life of the related term. All other foreign exchange gains and losses are included in net income or loss in the current period.

Financial Instruments The Company's financial instruments consist of cash and short-term investments, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and long-term indebtedness. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency and credit risk arising from these financial instruments. Because of the short-term to maturity of all the above-noted financial instruments except for long-term indebtedness, the fair value of these financial instruments approximate their carrying values.

Accounting Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

(in thousands of Canadian dollars, except per share amounts) December 31, 1996 and 1995 and November 30, 1994

1. ACQUISITIONS

The following are the acquisitions during the period. These acquisitions were accounted for by the purchase method and consolidated from the respective effective date of acquisition.

1994 Acquisitions:

Effective January 2, 1994, the Company acquired 70% of Cormark Communications Inc.

Effective September 27, 1994, the Company acquired 100% of Regal Greetings & Gifts Inc.

1995 Acquisitions:

Effective December 20, 1994, the Company acquired the assets of A. E. McKenzie Seed Co. Ltd.

Effective January 31, 1995, the Company acquired an additional 30% of Ambrose Carr Linton Carroll Inc. ("ACLC") and an additional 20% of Studiotype Inc.

Effective February 8, 1995, the Company acquired an 80% interest in Mercury Graphics Corporation. Effective April 1, 1995, the Company acquired the remaining 20%.

Effective September 1, 1995, the Company acquired 80% of the assets of McManus & Associates Limited. These assets were combined with Jeffrey Elliott Communications Inc. ("JECI"). JECI subsequently changed its name to McManus Elliott Communications Inc.

1996 Acquisitions:

Effective January 1, 1996, the Company acquired an additional 11% of ACLC and an additional 10% of Studiotype Inc.

Effective May 10, 1996, the Company acquired 100% of The House of Questa.

Effective July 1, 1996, the Company acquired 100% of Davis + Henderson Ltd.

Effective August 30, 1996, the Company acquired Australia-based assets and formed MDC Communications (Asia-Pacific) Pty Ltd.

The assets acquired and consideration given are as follows:

	December 31, 1996	December 31, 1995	November 30, 1994
Net assets acquired, at fair value			
Assets, net of liabilities	**$ 18,657**	$ 9,230	$ 3,873
Minority interest	**—**	878	204
	18,657	8,352	3,669
Consideration			
Cash and promissory notes	**78,264**	16,661	56,272
Share capital — Class A shares	**180**	4,153	630
Other acquisition costs	**2,068**	602	339
Earn-out payments	**—**	1,596	—
	80,512	23,012	57,241
Goodwill	**$ 61,855**	$ 14,660	$ 53,572

2. ACCOUNTS RECEIVABLE

	December 31, 1996	December 31, 1995	November 30, 1994
Trade receivables	$ 33,551	$ 15,333	$ 10,331
Unbilled work in progress	2,069	1,582	1,838
	$ 35,620	$ 16,915	$ 12,169

3. CAPITAL AND OTHER ASSETS

	December 31, 1996		December 31, 1995		November 30, 1994	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization	Cost	Accumulated Amortization
(a) Capital Assets						
Land	$ 1,666	$ —	$ 233	$ —	$ 102	$ —
Buildings	8,653	429	2,845	177	309	47
Assets under construction	—	—	—	—	3,992	—
Furniture and fixtures	12,620	7,075	7,519	4,579	6,214	4,149
Machinery and equipment	75,802	23,922	39,860	13,742	14,522	9,169
Leasehold improvements	6,044	1,745	4,700	1,437	2,615	1,132
	104,785	33,171	55,157	19,935	27,754	14,497
(b) Other Assets						
Notes receivable	1,147	—	788	—	—	—
Deferred charges	12,315	3,366	3,393	265	765	96
Deferred finance costs	12,314	1,447	4,826	735	2,972	71
Deferred foreign exchange	3,562	—	—	—	—	—
Deferred income taxes	1,061	—	352	—	759	—
	30,399	4,813	9,359	1,000	4,496	167
	135,184	37,984	64,516	20,935	32,250	14,664
Cost less accumulated amortization		$ 97,200		$ 43,581		$ 17,586

Included in capital assets are assets under capital lease with a cost of $13,346 (1995 – $4,520, 1994 – $Nil) and accumulated amortization of $1,868 (1995 – $118, 1994 – $Nil).

4. GOODWILL

	December 31, 1996	December 31, 1995	November 30, 1994
Cost	$ 145,906	$ 84,051	$ 69,391
Accumulated amortization	7,139	3,959	1,704
	$ 138,767	$ 80,092	$ 67,687

5. LONG-TERM INDEBTEDNESS

	December 31, 1996	December 31, 1995	November 30, 1994
10.5% unsecured senior subordinated debentures due December 1, 2006, interest payable semi-annually (US$125,000)	**$ 171,325**	$ —	$ —
6% convertible subordinated notes, due March 2002	**3,433**	3,226	—
6.75% mortgage payable due January 2002	**3,250**	—	—
Notes payable	**3,649**	2,232	777
12.44% promissory note	**—**	15,000	—
Term loans	**—**	38,004	30,832
	181,657	58,462	31,609
Obligations under capital leases, interest at 8.69% to 11.67%	**12,246**	7,412	218
	193,903	65,874	31,827
Less: Current portion	**2,996**	9,126	5,182
	$ 190,907	$ 56,748	$ 26,645

The Company has entered into cross currency interest rate swap agreements which have converted the interest obligation on the senior subordinated debentures from US$ to Cdn. $ and from 10.5% to a variable interest rate. As at the date hereof, the variable rate of interest was approximately 6.9%.

An event of default by the counterparties to these financial instruments does not create a significant risk because the notional principal amounts on currency are netted by agreement and there is no exposure to loss of the notional principal amount on interest rate contracts. However, as interest rates fluctuate, the market value related to these contracts rises and falls. The Company may be exposed to losses in the future, in respect of this intrinsic market value fluctuation, if the counterparties to the above contracts fail to perform; however, the Company is satisfied that the risk of such non-performance is remote. To reduce counterparty credit exposure, the Company deals only with large credit-worthy financial institutions, and limits credit exposure to each.

Bank indebtedness and term loans are secured by a registered general security agreement providing a first floating charge over all of the respective subsidiaries' assets, a general assignment of their book debts, and an assignment of applicable fire insurance policies.

The mortgage and capital leases are secured by specific equipment, land and building.

In accordance with the Company's financial instruments policy, the convertible subordinated notes have been allocated $3,057 to indebtedness and $1,943 to other paid-in capital of shareholders' equity. Additional interest is capitalized annually to the indebtedness portion of the notes in order that the indebtedness portion will equal the face value at maturity.

The notes are convertible at any time into Class A shares of the Company at the rate of 400 Class A shares for each $1 of notes. The notes are secured by a floating charge on all the assets of the Company and rank pari passu with the senior subordinated debentures and subordinate to all other bank and long-term indebtedness. Interest is paid quarterly.

The approximate principal portion of long-term indebtedness repayable in each of the five years subsequent to December 31, 1996, is as follows:

1997	—	$ 2,997
1998	—	3,689
1999	—	1,859
2000	—	2,603
2001	—	3,348

Total interest on long-term indebtedness was $7,938 (1995 – $4,516, 1994 – $813). Of this amount approximately $436 (1995 – $620, 1994 – $150) has been capitalized.

6. SHARE CAPITAL

The authorized share capital of the Company is as follows:

An unlimited number of Class A shares (subordinate voting shares) carrying one vote each, entitled to dividends equal to or greater than Class B shares, convertible at the option of the holder into one Class B share for each Class A share after the occurrence of certain events related to an offer to purchase all Class B shares.

An unlimited number of Class B shares carrying 20 votes each, convertible at any time at the option of the holder into one Class A share for each Class B share.

An unlimited number of non-voting preference shares issuable in series.

Pursuant to a shareholders' resolution on May 27, 1996, the Company consolidated its outstanding share capital on a one for six basis and changed the Company's name to MDC Communications Corporation. The issued and outstanding shares below have been adjusted for the share consolidation.

Changes to the Company's issued and outstanding share capital are as follows:

	Shares	Amount
Class A		
Balance, November 30, 1993	7,431,349	$ 21,013
Conversion of convertible securities	6	—
Shares issued on acquisitions	77,783	630
Special warrant issue subsequently cleared by prospectus	2,000,000	36,000
Share options exercised	58,283	243
Share issue costs, net of income tax recovery of $830	—	(1,045)
Balance, November 30, 1994	9,567,421	56,841
Conversion of convertible securities	25	—
Shares issued on acquisitions	287,681	4,153
Share options exercised	64,125	264
Balance, December 31, 1995	9,919,252	61,258
Shares issued by prospectus	1,916,667	25,875
Shares issued on acquisitions	17,967	180
Shares acquired and cancelled pursuant to a normal course issuer bid	(24,500)	(274)
Share options exercised	72,100	337
Share issue costs, net of income tax recovery of $1,200	—	(1,359)
Balance, December 31, 1996	11,901,486	$ 86,017

	Shares		Amount
Class B			
Balance, November 30, 1993	451,797	$	202
Conversion to Class A shares	(6)		—
Balance, November 30, 1994	451,791		202
Conversion to Class A shares	(25)		—
Balance, December 31, 1995 and December 31, 1996	451,766	$	202
Series 2 Preference Shares			
Balance, November 30, 1993	16,667	$	100
Shares redeemed	(16,667)		(100)
Balance, November 30, 1994	—	$	—
Total Share Capital			
1996		**$**	**86,219**
1995		$	61,460
1994		$	57,043

The Series 2 preference shares had a stated value of $1 per share and entitled the holder to a fixed, cumulative annual dividend of 9.5%. The shares were redeemable and retractable and were retracted in 1994.

The Company has granted options under the terms of its employee share option incentive plan to purchase 1,741,109 Class A shares at prices ranging from $3.00 to $20.40 per share. These options expire between 1997 and 2001.

The Company has reserved a total of 2,137,776 Class A shares in order to meet its obligation under various conversion rights, warrants and employee share options.

7. MINORITY INTERESTS

These amounts represent remuneration paid to shareholder-managers of the subsidiary companies pursuant to their respective shareholder agreements and adjustments to the minority interest position.

8. INCOME TAXES

The Company's provision for income taxes is comprised as follows:

		December 31, 1996		December 31, 1995		November 30, 1994
Current	**$**	**655**	$	2,611	$	1,360
Deferred		**2,006**		218		(986)
Recovery of taxes due to utilization of losses and unrecorded deferred tax debits of prior years		**(1,584)**		(2,863)		(201)
	$	**1,077**	$	(34)	$	173

Reconciliation to statutory rates is as follows:

		December 31, 1996		December 31, 1995		November 30, 1994
Provision for income taxes based on combined basic Canadian federal and provincial tax rate of 44.3%	$	**3,595**	$	1,540	$	2,072
Increase in taxes resulting from:						
Permanent differences		**1,475**		558		367
Losses not recognized for income tax purposes		**—**		1,372		301
Recovery of taxes due to realization of losses and unrecorded deferred tax debits of prior years		**(3,993)**		(3,504)		(2,567)
Total provision	$	**1,077**	$	(34)	$	173

As at December 31, 1996, the consolidated group had approximately $3,900 of non-capital losses which may be carried forward and utilized to reduce future years' taxable income. The right to claim these losses expires as follows:

1997	—	$	1,500
1999	—		100
2000	—		100
2001	—		1,200
2002	—		100
2003	—		900

As at December 31, 1996, the consolidated group had recorded items in the accounts of approximately $19,000 which had not been claimed for income tax purposes.

The potential income tax benefits arising from the above items have not been recorded in these consolidated financial statements.

9. EARNINGS PER SHARE

Earnings per share are calculated on a weighted average basis of Class A shares and Class B shares outstanding during the year.

10. PENSION COSTS AND OBLIGATIONS

The estimated market value of assets in the defined benefit component of the pension plan was $8,903 at December 31, 1996 (1995 – $7,446). These assets are available to meet the estimated present value of accrued pension obligations of $8,174 at December 31, 1996 (1995 – $7,412).

11. COMMITMENTS

The Company has leased real estate and equipment at the following approximate annual base rental:

1997	—	$	7,123
1998	—		5,475
1999	—		4,310
2000	—		3,462
2001	—		4,313
Thereafter	—		11,501

The Company, under agreements with respect to the terms of acquisitions, may be required to acquire part or all of minority shareholdings.

As at December 31, 1996, the Company is committed under various forward exchange contracts to purchase US$7,530 for $9,848 Cdn.

12. CONTINGENT LIABILITIES

As at December 31, 1996, there are claims against the Company in varying amounts. It is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these claims; however, management believes that any such amounts would not have a material impact on the business or financial position of the Company.

13. RELATED PARTY TRANSACTIONS

The Company paid fees totalling $1,000 (1995 – $500, 1994 – $500) to a company controlled by an officer of the Company in connection with capital transactions.

14. SEGMENTED INFORMATION

The Company operates in primarily three business segments — Direct Marketing and Home Shopping, Security and Specialty Products, and Communications and Marketing Services. Direct Marketing and Home Shopping operations include direct catalog sales, catalog incentive marketing programs and direct mail database consulting. Security and Specialty Products operations include commercial printing and the printing of cheques, postage stamps and other security products. Communications and Marketing Services include marketing consulting, packaging and corporate design, advertising, public relations, and electronic pre-press services.

FOR THE YEAR ENDED DECEMBER 31, 1996

	Direct Marketing & Home Shopping	Security and Specialty Products	Communications & Marketing Services	Corporate & Other	Total
Earnings:					
Sales	$ 96,221	$ 93,015	$ 46,067	$ (2,170)	$ 233,133
Operating income	$ 6,358	$ 17,008	$ 5,621	$ (922)	$ 28,065
Amortization	3,134	5,759	1,053	635	10,581
Minority interests	—	—	1,258	—	1,258
Gain on sale of capital assets	—	(579)	(36)	—	(615)
Earnings, before interest and income taxes	3,224	11,828	3,346	(1,557)	16,841
Interest					8,725
Earnings, before income taxes					8,116
Income taxes					1,077
Net earnings					$ 7,039
Assets:					
Total assets	$ 103,402	$ 169,447	$ 35,709	$ 53,377	$ 361,935
Expenditures on capital assets	$ 1,270	$ 7,626	$ 762	$ 4,695	$ 14,353

	Direct Marketing & Home Shopping	Security and Specialty Products	Communications & Marketing Services	Corporate & Other	Total
	FOR THE YEAR ENDED DECEMBER 31, 1995 (UNAUDITED)				
Earnings:					
Sales	$ 95,900	$ 39,325	$ 39,076	$ (1,519)	$ 172,782
Operating income	$ 6,980	$ 6,695	$ 3,605	$ (2,946)	$ 14,334
Amortization	2,800	1,444	1,164	356	5,764
Minority interests	—	—	828	—	828
Earnings, before interest and income taxes	4,180	5,251	1,613	(3,302)	7,742
Interest					4,976
Earnings, before income taxes					2,766
Income taxes (recovery)					(44)
Net earnings					$ 2,810
Assets:					
Total assets	$ 96,397	$ 47,077	$ 31,189	$ 9,465	$ 184,128
Expenditures on capital assets	$ 1,428	$ 13,208	$ 466	$ 650	$ 15,762

	Direct Marketing & Home Shopping	Security and Specialty Products	Communications & Marketing Services	Corporate & Other	Total
	FOR THE THIRTEEN-MONTH PERIOD ENDING DECEMBER 31, 1995				
Earnings:					
Sales	$ 105,269	$ 39,825	$ 40,608	$ (1,519)	$ 184,183
Operating income	$ 8,519	$ 6,522	$ 3,985	$ (3,242)	$ 15,784
Amortization	3,028	1,493	1,194	368	6,083
Minority interests	—	—	1,013	—	1,013
Earnings, before interest and income taxes	5,491	5,029	1,778	(3,610)	8,688
Interest					5,405
Earnings, before income taxes					3,283
Income taxes (recovery)					(34)
Net earnings					$ 3,317
Assets:					
Total assets	$ 96,397	$ 47,077	$ 31,189	$ 9,465	$ 184,128
Expenditures on capital assets	$ 1,433	$ 15,046	$ 491	$ 650	$ 17,620

	FOR THE YEAR ENDED NOVEMBER 30, 1994				
	Direct Marketing & Home Shopping	Security and Specialty Products	Communications & Marketing Services	Corporate & Other	Total
Earnings:					
Sales	$ 22,810	$ 11,752	$ 37,283	$ 570	$ 72,415
Operating income	$ 4,100	$ 900	$ 4,919	$ (1,818)	$ 8,101
Amortization	460	407	936	118	1,921
Minority interests	—	—	850	—	850
Loss on sale of capital assets	—	3	—	—	3
Earnings, before interest and income taxes	3,640	490	3,133	(1,936)	5,327
Interest					846
Earnings, before income taxes					4,481
Income taxes					173
Net earnings					$ 4,308
Assets:					
Total assets	$ 78,784	$ 12,316	$ 25,854	$ 7,095	$ 124,049
Expenditures on capital assets	$ 560	$ 4,439	$ 495	$ 436	$ 5,930

15. SUBSEQUENT EVENTS

(a) On January 7, 1997, the Company issued $50 million 7% subordinated convertible debentures, due January 8, 2007. The debentures are convertible at the option of the holder into Class A shares at a rate of 49.261 Class A shares per $1,000 of debenture. The debentures will be redeemable by the Company from December 31, 1999 to December 30, 2001 provided the trading price of the Class A shares is not less than 125% of the conversion price. After December 30, 2001 the debentures are redeemable by the Company. The Company may, at its option, satisfy the obligation to repay the principal amount of the debentures on redemption or at maturity in freely tradeable Class A shares.

(b) Effective January 24, 1997, the Company entered into a credit facility with two Canadian chartered banks. This US$50 million revolving credit facility has a five-year term, bears interest at variable rates and is undrawn as at the date hereof.

(Dollars and shares in thousands except per share amounts)

	1996	1995	1994	1993	1992	1991	1990
Income							
Sales	$ **233,133**	172,782	72,415	32,061	27,296	21,188	23,782
Cost of sales	**136,300**	100,397	45,922	22,495	19,617	15,631	17,155
Gross profit	**96,833**	72,385	26,493	9,566	7,679	5,557	6,627
Operating expenses	**68,768**	58,051	18,392	5,910	4,571	4,484	4,612
Operating income	**28,065**	14,334	8,101	3,656	3,108	1,073	2,015
Amortization expense	**10,581**	5,764	1,921	895	690	739	819
Interest expense	**8,725**	4,976	846	626	879	1,057	1,182
Minority interests	**1,258**	828	850	299	479	531	789
Loss (gain) on sale of capital assets	**(615)**	—	3	(148)	(46)	—	7
Income (loss) before income taxes	**8,116**	2,766	4,481	1,984	1,106	(1,254)	(782)
Income taxes (recovery)	**1,077**	(44)	173	113	27	(161)	106
Net income (loss) before undernoted item	**7,039**	2,810	4,308	1,871	1,079	(1,093)	(888)
Non-recurring charges/ discontinued operations	—	—	—	—	—	467	5,302
Net income (loss)	$ **7,039**	2,810	4,308	1,871	1,079	(1,560)	(6,190)
Net income per share							
Basic	$ **0.61**	0.27	0.46	0.25	0.23	(0.60)	(2.72)
Fully diluted	**0.58**	0.27	0.45	0.25	0.22	(0.60)	(2.72)
Cash flow							
Cash flow from operations	$ **17,310**	7,591	6,363	1,552	2,011	(303)	(507)
Cash flow per share							
Basic	**1.49**	0.74	0.68	0.21	0.42	(0.12)	(0.22)
Fully diluted	**1.34**	0.69	0.64	0.21	0.40	(0.12)	(0.22)
Financial position							
Net working capital	**61,893**	8,194	7,741	9,938	539	166	1,177
Investments	—	—	683	1,740	—	—	2
Capital and other assets	**97,200**	43,581	17,586	3,868	2,161	1,866	2,297
Goodwill	**138,767**	80,092	67,687	14,707	10,739	6,522	6,698
Total assets	**361,935**	184,128	124,049	40,076	23,311	13,815	15,527
Long-term indebtedness	**190,907**	56,748	26,645	5,844	5,948	6,477	8,518
Total indebtedness	**194,579**	80,734	32,178	8,080	8,602	8,794	10,442
Shareholders' equity	**105,776**	73,978	64,301	24,165	7,172	1,796	1,152
Other data							
Operating income as a % of sales	% **12.0**	8.3	11.2	11.4	11.4	5.1	8.5
Net income as a % of sales	**3.0**	1.6	5.9	5.8	4.0	(7.4)	(26.0)
Book value per share	$ **8.56**	7.13	6.42	3.07	1.25	0.58	0.49
Current ratio	**1.97**	1.16	1.26	2.01	1.05	1.03	1.22
Long-term indebtedness to total capitalization	% **63.6**	36.7	27.6	18.1	37.7	61.2	73.5
Total indebtedness to total capitalization	**64.8**	52.2	33.4	25.1	54.5	83.0	90.1
Total indebtedness to shareholders' equity	**1.84**	1.09	0.50	0.33	1.20	4.90	9.06
Class A and B shares outstanding at year end	**12,353**	10,371	10,019	7,883	5,742	3,085	2,342
Employees at year end	**2,817**	1,491	1,150	277	160	111	102

Results have been restated to conform with 1996 accounting policies and reflect the one for six share consolidation completed in May 1996.

(Unaudited)	1st Quarter 1996	1st Quarter 1995	1st Quarter 1994	2nd Quarter 1996	2nd Quarter 1995	2nd Quarter 1994
Sales	**$ 47,559**	$ 43,618	$ 10,668	**$ 45,918**	$ 39,354	$ 15,646
Net income						
Net income	**1,821**	762	915	**(556)**	1,012	693
Net income per share						
Basic	**0.18**	0.07	0.10	**(0.06)**	0.10	0.07
Fully diluted	**0.16**	0.07	0.10	**(0.04)**	0.10	0.07
Cash flow						
Cash flow from operations	**3,154**	2,297	1,361	**720**	323	1,056
Cash flow per share						
Basic	**0.30**	0.22	0.15	**0.06**	0.04	0.11
Fully diluted	**$ 0.27**	$ 0.21	$ 0.14	**$ 0.06**	$ 0.04	$ 0.11

(Unaudited)	3rd Quarter 1996	3rd Quarter 1995	3rd Quarter 1994	4th Quarter 1996	4th Quarter 1995	4th Quarter 1994	Annual total 1996	Annual total 1995	Annual total 1994
Sales	**$ 59,716**	$ 40,822	$ 12,191	**$ 79,940**	$ 48,988	$ 33,910	**$ 233,133**	$172,782	$ 72,415
Net income									
Net income	**321**	(291)	406	**5,453**	1,327	2,294	**7,039**	2,810	4,308
Net income per share									
Basic	**0.02**	(0.03)	0.05	**0.47**	0.13	0.24	**0.61**	0.27	0.46
Fully diluted	**0.02**	(0.03)	0.05	**0.44**	0.13	0.23	**0.58**	0.27	0.45
Cash flow									
Cash flow from operations	**3,324**	1,492	1,140	**10,112**	3,479	2,806	**17,310**	7,591	6,363
Cash flow per share									
Basic	**0.27**	0.14	0.12	**0.86**	0.34	0.30	**1.49**	0.74	0.68
Fully diluted	**$ 0.26**	$ 0.14	$ 0.11	**$ 0.75**	$ 0.30	$ 0.28	**$ 1.34**	$ 0.69	$ 0.64

Results for 1996 and 1995 cover the quarters ended March, June, September and December.

Results for 1994 cover the quarters ended February, May, August and November.

Prior period results have been restated to conform with 1996 accounting policies.

CLASS A SHARE PRICE

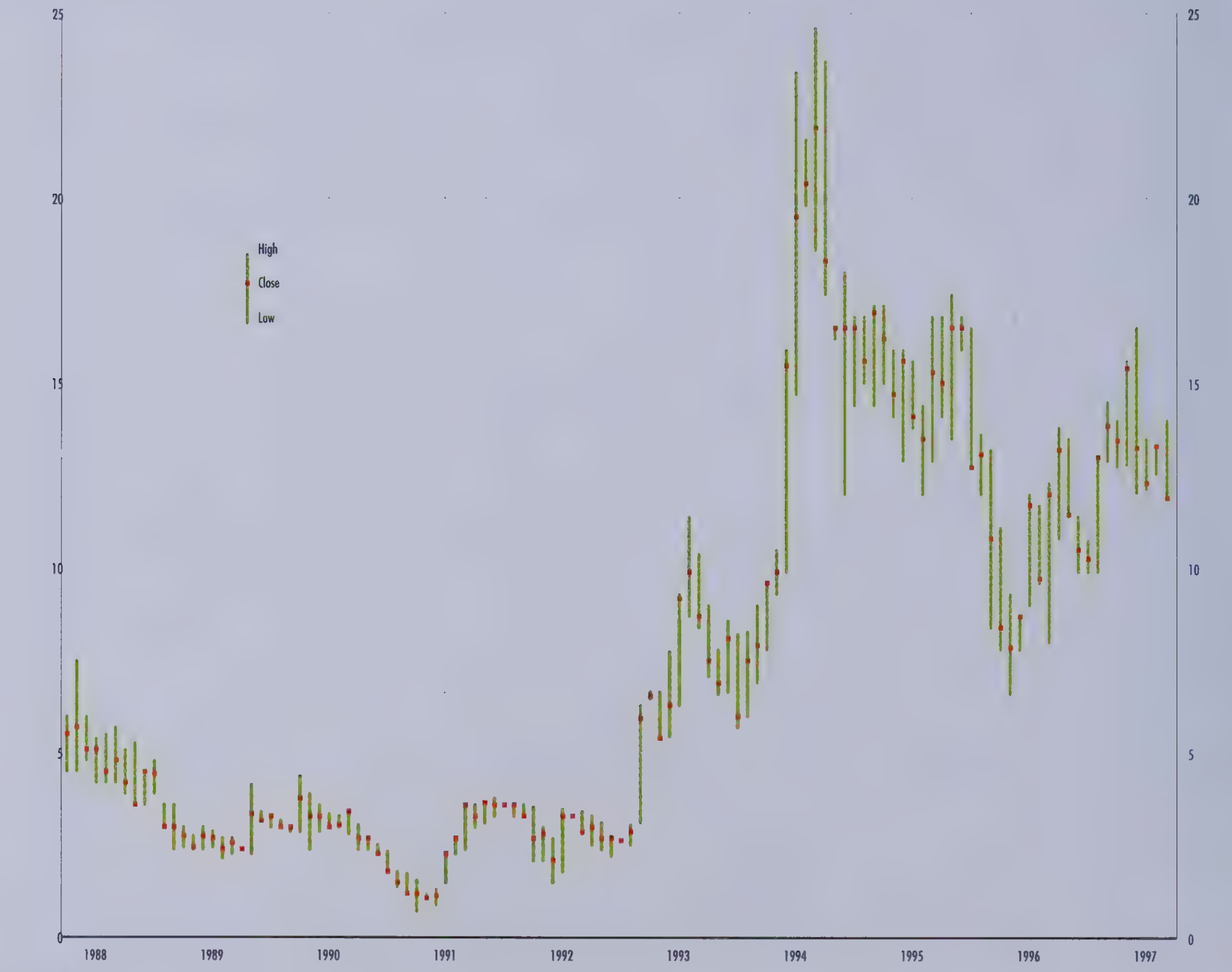
The Class A shares of MDC Communications Corporation are listed on the Toronto Stock Exchange and since April 1995 on the American Stock Exchange.

Quarterly market price data, adjusted for the one for six consolidation completed in May 1996, from 1992 to the first quarter of 1997 were as shown below:

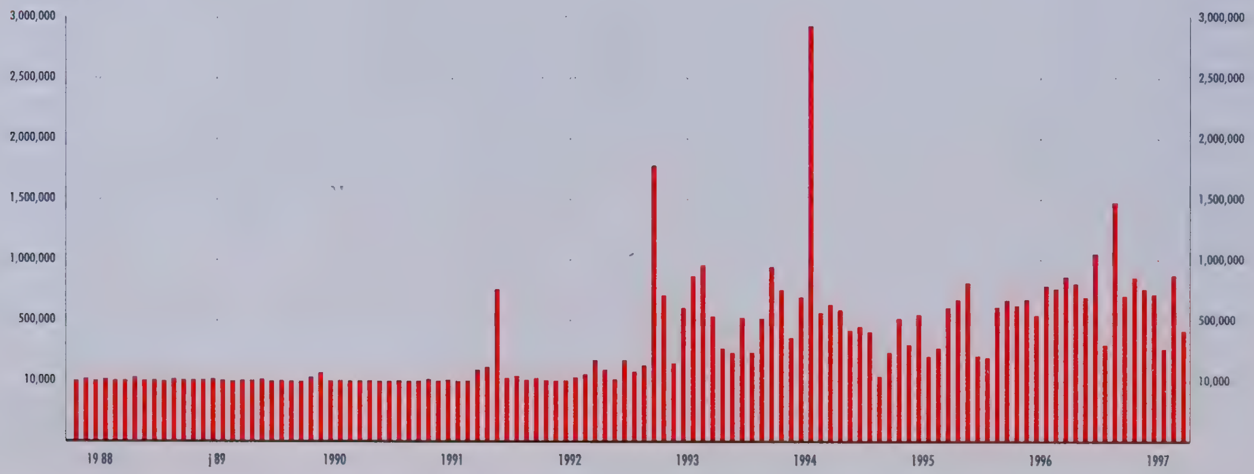
	MDZ.A Toronto Stock Exchange			MDQ American Stock Exchange		
	Market price per share		Trading volume	Market price per share		Trading volume
Quarter ending	High	Low	# of shares	High	Low	# of shares
1997						
March 31	**$ 14.00**	**$ 11.90**	**1,619,240**	**$ 10.25**	**$ 8.63**	**187,300**
1996						
December 31	**$ 16.50**	**$ 12.05**	**2,330,275**	**$ 12.13**	**$ 9.13**	**493,900**
September 30	**$ 14.50**	**$ 9.90**	**2,474,651**	**$ 10.75**	**$ 7.00**	**546,600**
June 30	**$ 13.80**	**$ 9.90**	**2,546,773**	**$ 10.13**	**$ 7.19**	**416,183**
March 31	**$ 12.30**	**$ 9.00**	**2,410,339**	**$ 9.75**	**$ 6.38**	**691,733**
Total 1996	**$ 16.50**	**$ 9.00**	**9,762,038**	**$ 12.13**	**$ 6.38**	**2,148,416**
1995						
December 31	$ 13.20	$ 6.60	2,377,965	$ 9.38	$ 4.88	174,983
August 31	$ 16.80	$ 12.00	1,018,181	$ 12.38	$ 9.38	63,033
May 31	$ 17.40	$ 12.90	2,091,864	$ 12.75	$ 9.75	114,533
February 28	$ 15.90	$ 12.00	1,027,809			
Total 1995	$ 17.40	$ 6.60	6,515,819	$ 12.75	$ 4.88	352,550
1994						
November 30	$ 17.10	$ 14.10	1,056,306			
August 31	$ 18.00	$ 12.00	900,445			
May 31	$ 24.60	$ 15.60	1,641,711			
February 28	$ 23.40	$ 9.90	4,185,750			
Total 1994	$ 24.60	$ 9.90	7,784,212			
1993						
November 30	$ 10.50	$ 6.90	2,056,852			
August 31	$ 8.58	$ 5.70	1,277,667			
May 31	$ 10.38	$ 6.60	1,040,305			
February 28	$ 11.40	$ 5.46	2,424,275			
Total 1993	$ 11.40	$ 5.46	6,799,099			
1992						
November 30	$ 6.96	$ 3.12	2,639,328			
August 31	$ 3.06	$ 2.22	384,833			
May 31	$ 3.42	$ 2.40	187,150			
February 29	$ 3.60	$ 1.50	98,767			
Total 1992	$ 6.96	$ 1.50	3,310,078			

Toronto Stock Exchange Trading History: 1987 – 1997

SHARE PRICE IN $ CDN.



VOLUME



THE EXECUTIVE COMMITTEE

Chairman:
Miles S. Nadal

Members:
Lloyd S.D. Fogler, QC,
Stephen M. Pustil

Responsibilities:

During intervals between full meetings of the Board of Directors, the Executive Committee may undertake the business of the Board — excluding responsibilities specified in subsection 127(3) of the Business Corporations Act, 1982 (Ontario) — in all areas where specific direction has not been given by the Board. All expenditures authorized by the Executive Committee are reported to the Board of Directors at its next meeting. The Executive Committee maintains minutes of its meetings which are submitted to the Board for approval.

Specific responsibilities include:

- To study and make recommendations to the Board on new policies concerning the orientation, expansion, and development of the Corporation.
- To study and make recommendations on annual and long-term plans for approval by the Board.
- To recommend to the Board annual budget projections.
- To study and recommend to the Board any capital expenditure plans.
- To review operating results for each quarter and the year-to-date.
- To deal with all matters, including guarantees, commitments, purchases of shares or assets for amounts under $500,000.
- To give prior authorization on capital expenditures for amounts of $300,000 or less not included in the annual budget.
- To recommend to the Board all matters concerning a change affecting any of the Corporation's bankers.
- To examine and recommend any proposal involving significant changes in management of the business, major acquisitions, commitments for investments for reference to the Board.
- Any other responsibilities specifically delegated by the Board.

THE AUDIT COMMITTEE

Chairman:
Thomas N. Davidson

Members:
Lloyd S.D. Fogler, QC,
Miles S. Nadal,
Stephen M. Pustil

Responsibilities:

To review all financial statements, annual and interim, intended for circulation among shareholders and to report upon these to the Board. In addition, the Board of Directors may refer to the Audit Committee on other matters and questions relating to the financial position of the Corporation and its affiliates.

CORPORATE GOVERNANCE COMMITTEE

Chairman:
Stephen M. Pustil

Members:
Ronald D. Besse,
Graham W. Savage

Responsibilities:

The Corporate Governance Committee is composed of three members, all of which are unrelated directors. The committee is responsible for reviewing and making recommendations to the full Board with respect to developments in the area of corporate governance and the practices of the Board. The committee is also responsible for evaluating the performance of the Board as a whole as well as individual board members and for reporting to the Board with respect to appropriate candidates for nominations to the Board.

THE COMPENSATION COMMITTEE

Chairman:
Stephen M. Pustil

Members:
Ronald D. Besse,
Thomas N. Davidson,
Miles S. Nadal

Responsibilities:

- To determine the compensation of all senior officers of the Corporation.
- To discuss personnel and human resources matters including recruitment and development, management succession and benefit plans, and
- To grant options under the Corporation's Employee Stock Option Incentive Plan.

In addition, the Board may refer to the Committee other matters and questions relating to compensation of management employees of the Company and its affiliates.

BOARD OF DIRECTORS

MDC COMMUNICATIONS CORPORATION
Ronald D. Besse
Thomas N. Davidson
Lloyd S. D. Fogler, QC
Guy P. French
Patricia O. Frost
Peter M. Lewis
W. Judson Martin
Miles S. Nadal
Dr. Brian H. Price
Stephen M. Pustil
Graham W. Savage

DIRECT MARKETING AND HOME SHOPPING DIVISION
Lisa J. De Wilde
Paul W. Fish
Lloyd S. D. Fogler, Q.C.
Albert Gnat, Q.C.
Anthony H. Keenan
Robert H. King
W. Judson Martin
Miles S. Nadal
Stephen M. Pustil
Jerry I. Reitman

SECURITY AND SPECIALTY PRODUCTS DIVISION
Thomas N. Davidson
Lloyd S. D. Fogler, Q.C.
Anthony Frank
W. Judson Martin
Miles S. Nadal
Stephen M. Pustil
Michael Wilson

OFFICERS

Miles S. Nadal
CHAIRMAN, PRESIDENT & CHIEF EXECUTIVE OFFICER

Stephen M. Pustil
VICE-CHAIRMAN

W. Judson Martin
SENIOR EXECUTIVE VICE-PRESIDENT & CHIEF OPERATING OFFICER

Peter M. Lewis
EXECUTIVE VICE-PRESIDENT, CORPORATE DEVELOPMENT

Michael B. Simonetta
EXECUTIVE VICE-PRESIDENT

Michel Frappier
VICE-PRESIDENT OF THE CORPORATION AND PRESIDENT, COMMUNICATIONS AND MARKETING SERVICES DIVISION

Lawrence E. Lee
VICE-PRESIDENT OF THE CORPORATION AND PRESIDENT, DIRECT MARKETING AND HOME SHOPPING DIVISION

Graham Searle
VICE-PRESIDENT OF THE CORPORATION AND PRESIDENT, SECURITY AND SPECIALTY PRODUCTS DIVISION

Gregory J. McKenzie
VICE-PRESIDENT OF THE CORPORATION AND PRESIDENT, SECURITY CARD SERVICES GROUP

Walter Campbell
VICE-PRESIDENT FINANCE & CORPORATE SECRETARY

Gordon A. Kilpatrick
DIRECTOR, PLANNING & CORPORATE DEVELOPMENT

Ronald J. Sneek
DIRECTOR OF FINANCE

Maria Pappas
ASSISTANT SECRETARY

MDC COMMUNICATIONS CORPORATION

HEAD OFFICE:

45 Hazelton Avenue, Toronto, Ontario, Canada M5R 2E3
(416) 960-9000, Fax: (416) 960-9555, E-Mail: www.mdccorp.com

Security and Specialty Products

Ashton-Potter Canada Ltd.
5485 Tomken Road
Mississauga, Ontario
L4W 3Y3
(905) 625-2020
Fax: (905) 625-4040
PRESIDENT: MR. RICK ALDRIDGE

Ashton-Potter (USA) Ltd.
10 Curtwright Drive
Williamsville, New York
14221
(716) 633-2000
Fax: (716) 633-2525
GENERAL MANAGER:
MR. BARRY SWITZER

Check Gallery Inc.
1809 Fashion Court, Suite 111
Joppa, Maryland
21085
(410) 679-3300
Fax: (410) 686-0603
PRESIDENT: MR. JOHN BROWNING

Davis + Henderson Inc.
2 Lansing Square, Suite 700
North York, Ontario
M2J 4P8
(416) 498-7700
Fax: (416) 716-5478
CHAIRMAN & C.E.O.:
MR. SANFORD MCFARLANE
PRESIDENT & C.O.O.:
MR. ROBERT CRONIN

Globe Graphic Communications Inc.
5485 Tomken Road
Mississauga, Ontario
L4W 3A3
(905) 625-1010
Fax: (905) 625-1011
PRESIDENT & C.E.O.:
MR. RICK ALDRIDGE

MDC Communications (Asia-Pacific) Pty Ltd.
800 Stud Road
Scoresby, Victoria
3179 Australia
011 613 9 764 9644
Fax: 011 613 9 764 9272
MANAGING DIRECTOR:
MR. TREVOR MARRIOTT

Mercury Graphics
1438 Fletcher Road
Saskatoon, Saskatchewan
S7M 5T2
(306) 384-8000
Fax: (306) 683-0075
PRESIDENT:
MR. GORDON BAYDA

Placard Pty Ltd.
40 London Drive
Bayswater, Victoria
3153 Australia
011 613 9 762 8944
Fax: 011 613 9 762 9465
GENERAL MANAGER:
MR. JIM CALROW

Spectron Security Print Pty Ltd.
800 Stud Road
Scoresby, Victoria
3179 Australia
011 613 9 764 9644
Fax: 011 613 9 764 9272
GENERAL MANAGER:
MR. NOEL HILL

The House of Questa
Parkhouse Street, London
England SE5 7TP
011 44 171 703 7162
Fax: 011 44 171 703 4867
MANAGING DIRECTOR:
MR. DICK ASHWELL

Direct Marketing and Home Shopping

A.E. McKenzie Co. Inc.
30 Ninth Street
Suite 100
Brandon, Manitoba
R7A 6E1
(204) 725-7333
Fax: (204) 728-8671
SENIOR VICE-PRESIDENT & C.F.O.:
MR. KENNETH ROBINSON

Black Diamond Incentives
8 Denison Street
Markham, Ontario
L3R 2P2
(905) 475-6832
Fax: (905) 475-5431
PRESIDENT & C.E.O.:
MR. GERALD WILKS

Primes de Luxe
909, boul. Pierre-Bertrand
Bureau 100
Ville Vanier, Quebec
G1M 3R9
(418) 527-4155
Fax: (418) 527-2272
PRESIDENT & GENERAL MANAGER:
MR. RICHARD BELANGER

Regal Greetings & Gifts Inc.
939 Eglinton Avenue East
Toronto, Ontario
M4G 4E8
(416) 425-3130
Fax: (416) 425-3433
CHAIRMAN: MR. ANTHONY KEENAN
PRESIDENT & C.E.O.: MR. LAWRENCE LEE

Communications and Marketing Services

Accumark Promotions Group Inc.
240 Duncan Mills Road
Suite 101
North York, Ontario
M3B 1Z4
(416) 446-7758
Fax: (416) 446-1923
PRESIDENT: MR. TOM GREEN

Ambrose Carr Linton Carroll Inc.
939 Eglinton Avenue East
Suite 203
Toronto, Ontario
M4G 4E8
(416) 425-8200
Fax: (416) 425-5962
PRESIDENT AND C.E.O.:
MS. ESMÉ CARROLL

Bryan Mills & Associates Ltd.
39 Cosentino Drive
Scarborough, Ontario
M1P 3A3
(416) 292-3997
Fax: (416) 292-3656
PRESIDENT & C.E.O.: MR. BRYAN MILLS

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Pro-Image Corporation Techna-Type Division
1805 Loucks Road
York, Pennsylvania
17404
(717) 764-5880
Fax: (717) 764-6140
GENERAL MANAGER: MR. ROBERT SNYDER

Publicite LBJ (Division of LBJ Advertising Limited)
2500, boulevard Daniel Johnson,
Bureau 908
Laval, Quebec
H7T 2P6
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Veritas Communications Inc.
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161 Eglinton Avenue East
Suite 704
Toronto, Ontario
M4P 1J5
(416) 482-2248
Fax: (416) 482-2292
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Montreal Office:
1 Holiday Street
Pointe Claire, East Tower
Suite 205
Pointe Claire, Quebec
H9R 5N3
(514) 428-0588
Fax: (514) 428-5871
SENIOR VICE-PRESIDENT & MANAGING DIRECTOR: MR. JEAN PIERRE TRUDEL

LEGAL COUNSEL

Canada:

Fogler, Rubinoff
Toronto, Ontario

USA:

Simpson Thacher & Bartlett
New York, New York

Skadden Arps Slate
Meagher & Flom
New York, New York

AUDITORS

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BANKERS

Royal Bank of Canada
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The R-M Trust Company

The R-M Trust Company operates a telephone information inquiry line that can be reached by dialing toll-free 1-800-387-0825 or (416) 813-4600. Correspondence may be addressed to:

MDC Communications Corporation
c/o The R-M Trust Company
Corporate Trust Services
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario M5C 2W9

INVESTOR RELATIONS

For Investor Relations information please call Maria Pappas, Co-ordinator (416) 960-9000 Extension 222

STOCK EXCHANGE LISTING

The Class A Shares of the Company are listed on The Toronto Stock Exchange and on the American Stock Exchange in the United States.

TORONTO STOCK EXCHANGE TRADING SYMBOL

MDZ.A

AMERICAN STOCK EXCHANGE TRADING SYMBOL

MDQ

NOTICE OF SHAREHOLDERS' MEETING

The annual meeting of shareholders will be held Thursday, May 29, 1997 at 4:30 pm at the Design Exchange, Toronto Dominion Centre, 234 Bay Street, Trading Floor, Toronto, Ontario.

CREDITS

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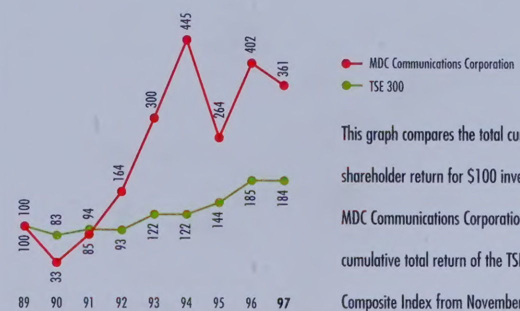
CUMULATIVE VALUE OF $100 INVESTMENT
(in Canadian dollars, as of each fiscal year end and the first quarter of 1997)



This graph compares the total cumulative shareholder return for $100 invested in MDC Communications Corporation with the cumulative total return of the TSE 300 Composite Index from November 1989.

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MDC
COMMUNICATIONS

45 Hazelton Avenue,
Toronto, Ontario
Canada M5R 2E3
Phone (416) 960-9000
Fax (416) 960-9555